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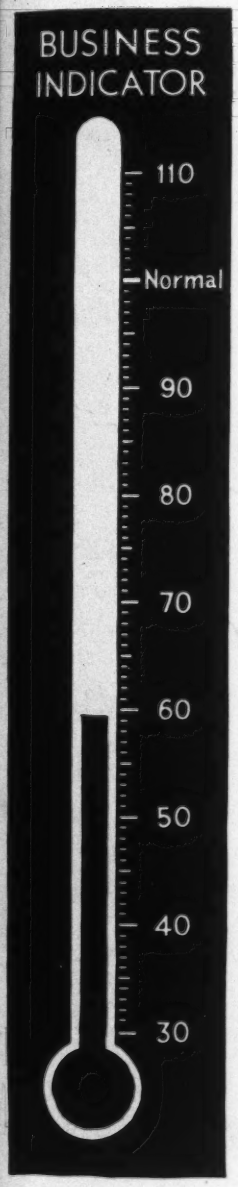
THE BUSINESS WEEK:

FEB 24, 1932



New emergency banking legislation has stimulated speculative activity in security and commodity markets by arousing renewed expectation of a final check to deflationary forces, but business activity has so far shown no sign of response . . . . Most current indicators moved to lower levels by the middle of February . . . . Building contracts have practically dried up with the disappearance of public construction . . . . Electric power output is depressed by unseasonal weather . . . . Carloadings continue slack except for sporadic spurts of coal shipments . . . . Steel production still awaits acceleration from automobile demand expected to be released, now that Ford plans are revealed . . . . Foreign trade has relapsed to pre-war levels, and prospects for progress in international cooperation on reparations and peace problems are not improved . . . . Domestic currency hoarding and bank credit contraction have so far shown no marked change in response to Administration efforts, but immediate obstacles to aggressive Federal Reserve open market operations and credit expansion will be removed by the banking measures being rushed through Congress and early action may be expected . . . . Effective re-inflationary influence of these measures upon commodity values, employment, and consumer purchasing power depends now upon prompt cooperation of member banks in expanding credit in commercial channels and initiative of business concerns in insisting upon increased credit accommodation to add to payrolls, replenish supplies, improve equipment, develop markets.

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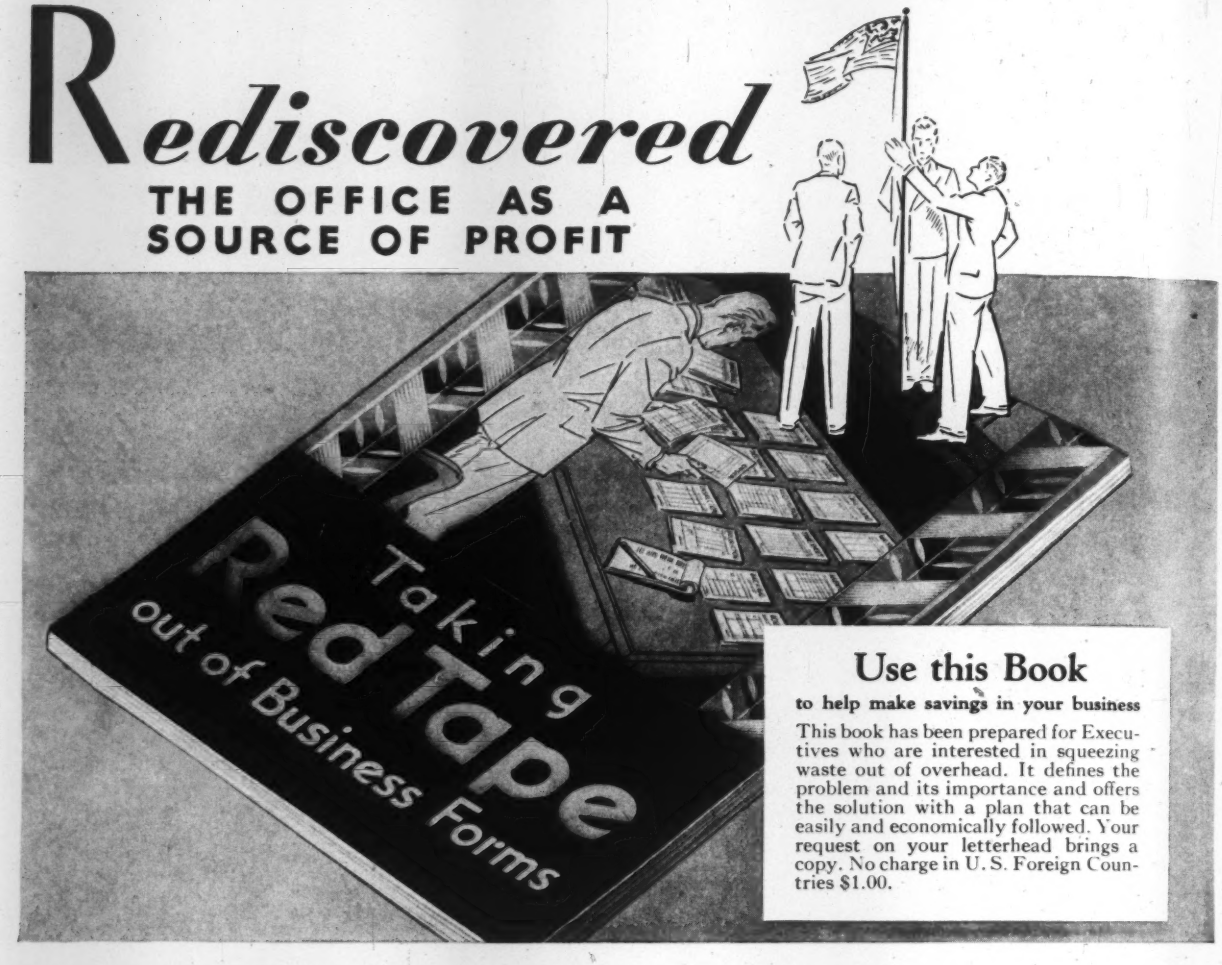

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This Business Week:

Washington

The Glass–Steagall measure does this: it backs the banks with the resources of both the Reconstruction Corporation and the Federal Reserve system. Thus it aims to stop hoarding by stopping the bank failures which cause it; to stabilize securities markets and improve securities prices. These things done, it puts squarely up to business and the banks, the job of providing work for the expanded credit. *(p. 5)*

Sponsors of the anti-trust laws, who aimed to protect the people and the little business man, revolved briskly in their graves last week when representatives of the same little business men asked for a 2-year suspension to stop what they call "destructive competition." *(p. 16)*

Employment

City, state, and federal governments continue to hold down taxes at the expense of public works, although what is saved on job-giving construction must be paid out, publicly or privately, for direct relief. *(p. 7)*

Schemes to set up reserves against unemployment have been many. From the great industrial belt which stretches from Ohio to Massachusetts comes a plan which gains the benefits while avoiding the faults of other efforts. *(p. 8)*

Taxes

Illinois' new income levy is frankly aimed at lightening the burden of the property owner by providing a wider and more equitable base for state taxation. *(p. 19)*

Real Estate

Faced with heavy fixed charges and light rent rolls, landlords are putting aside their traditional lordliness to go "partners" with their worthwhile business tenants. The percentage lease, whereby rent is paid on the basis of business done, is replacing older forms. *(p. 9)*

Marketing

Competition in the mechanical refrigerator industry was once between "features"; early this year, it became a matter of terms; now, as established makers bring out cheaper lines and new makers enter the field, it becomes a matter of price. *(p. 10)*

City advertising has forsaken the brass band and bunting school for the logic of census figures. *(p. 11)*

Despite fewer customers and lower average checks, restaurants keep right on opening up; San Francisco, which keeps track of these things, reports the birthrate one a day. Most of them, of course, are little independent ham-and-beaners. The big ones, especially the chains, are doing right well, considering, and some are taking advantage of the times to expand, seek better locations. *(p. 12)*

Transportation

According to the ruling considered by the I.C.C., extra fare trains are all right provided they don't exceed a third of the total available. To make this proportion, Eastern roads may have to cut their extra fare accommodations. However, the bulk of the business will continue to be carried on a few famous trains. *(p. 13)*

Intercoastal steamship lines' agreement to stabilize fares so that slower service is cheaper may be just another truce in the rate war. *(p. 13)*

More about the prospects of flexible rate-making urged as relief for the railroads. *(p. 14)* Shippers would rather endure reciprocal buying than lose the right to route their freight the way they want. *(p. 14)*

Foreign

Recent barriers to foreign trade are causing American business to take another look at Russia. But while the Soviets have always paid their bills they can't buy from us without selling to us. *(p. 29)*

Germany's merchant marine, proud of accomplishment without subsidy, at last has had to call for government assistance. *(p. 24)*

The Cuba *vs.* Java fight still threatens sugar production curtailment; nevertheless, the Chadbourne plan is likely to succeed. *(p. 25)*

This year, of all years, Canada's biggest payments come due; the Bennett government resolutely sets out to meet them by hard-boiled governmental economy and a strenuous effort to balance the budget. *(p. 26)*

Cabled reports from abroad reflect in lesser degree the new hopefulness here. *(p. 31)*

Figures

Absence of immediate stimulus to increased business volume in the major lines of trade and production have forced our index still lower in the tube. *(p. 36)*

Finance

Public utility holding companies, long exempt, are feeling the pressure of the times; those with the tallest financial superstructures find that the leverage which multiplied profits works the same way on losses. *(p. 22)*

Effects of new financial moves in Washington are not yet noticeable in the money market, as most of them are not yet operative. Gold losses continued to reflect the foreign attitude. *(p. 38)*

SUCH SPEED WAS UNHEARD OF . . .
SO HE PUT OUT THE FIRE!

The year 1832. A train carrying a special Presidential message to Baltimore. Faster and faster it roared along. Now it had reached a speed of thirty miles an hour. Suddenly a hiss, a jolt. The train stopped. The fireman, frightened at such speed, had put out the fire!

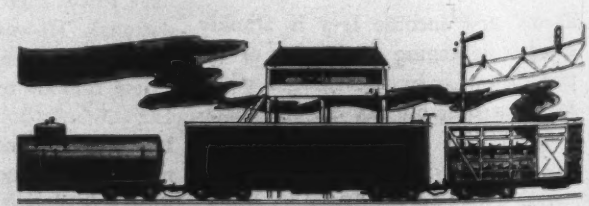
• • •

TIMES HAVE CHANGED since firemen put out fires because thirty miles an hour was too fast. Today's railroad is the most efficient mode of transportation ever devised by man. Although generally we think of this efficiency in terms of passenger service, the greatest contribution the railroad has made is its economical handling of freight.

Thousands of freight trains roar through the night. One brings your morning milk. Another carries fresh fruits and vegetables. Still others bring clothing and building material. These essentials of life must arrive on time.

Were it not for railroad transportation we would live in a different world. Our fruits and vegetables would have to be gathered from nearby orchards and farms. Indispensable drugs would not be available at the corner pharmacy. Part of our cities would be turned into dairy lots and grazing lands. Our modern industrial structure would crumble.

Supplementing the railroad, and helping it maintain its high efficiency is the General American Tank Car Corporation. Most railroads maintain only sufficient special cars (such as refrigerator and tank) for their daily requirements. At peak seasons, when additional equipment is necessary, they obtain extra cars from General American. These cars are leased first to one road and then to another—thus enabling General American to operate its fleet economically throughout the year. In this way General American assists the railroads—helping them to render the most efficient transportation service ever devised by man. *Address Continental Illinois Bank Building, Chicago, Illinois.*



GENERAL AMERICAN TANK CAR CORPORATION

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THE BUSINESS WEEK

The Journal of Business News and Interpretation

News of the week ending February 20, 1932

Credit Expansion Is Now Up to Business and the Banks

Glass-Steagall bill supplies the way; its success depends on their will to use it

WASHINGTON this week added another cylinder to the powerful machine it has set up to stimulate business by using the leverage of money and credit. The Glass-Steagall measure, announced with dramatic suddenness, throws much more of the weight of the Federal Reserve system behind the previoulsy assembled Reconstruction Finance Corp. and the anti-hoarding move. And it opens the door for the Reserve system to go almost anywhere in bringing monetary pressure to bear to relieve business.

The measure does 2 things. First, by making government securities eligible to back paper money in the emergency, it lessens the amount of gold required for reserves and thus increases the free gold of the Federal Reserve system by $800 millions or more. Before the bill came up the free gold was under $450 millions and diminishing fairly rapidly. With such a small margin the Reserve banks had to conserve their strength and so were prevented from exerting much pressure through open market operations, which, in effect, would decrease their free gold. The 2 driving forces behind conservation were hoarding, which decreases free gold, and withdrawals of foreign money from this country in the form of gold. There were between $600 millions and $1 billion of such funds that could have been withdrawn and were being withdrawn rapidly.

Open-Door Policy

Second, the bill relaxes the eligibility provisions and, in effect, establishes an emergency-limited Lombard loan system, whereby, under certain conditions, banks can borrow from the Reserve banks on almost any assets they have. Considerable controversy has grown up as to the exact nature of the limitations to be imposed, and no decision has been made as this issue goes to press.

The new measure was drafted hurriedly and rushed through Congress with a speed which testified to the imperative need of action. Foreigners, especially the French, were threatening to withdraw all of their gold and, if they had done so, they would have exhausted completely the system's free gold with the danger of forcing suspension of the gold standard. Furthermore, applications for loans had come in to the Reconstruction Finance Corp. in much heavier volume than expected, so that the corporation needed more powerful backing. And, finally, some domestic "situations" of a serious nature were threatening.

Forced Into Line

In the face of these facts even the more conservative members of Congress and the Administration were forced to move quickly, behind measures they normally would have opposed. Senator Glass was outstanding in this group. In his case, considerable bad feeling exists in Washington in that he is said to have assented to more liberal measures in conference than he has backed on the floor of the Senate. Proponents of greater liberality hope to defeat him in the final conference between the 2 houses.

The Glass-Steagall Bill, together with the Reconstruction Corp. and the anti-hoarding campaign, now assemble unparalleled strength behind the largest-scale experiment to stimulate business that ever has been tried. The success or failure of the campaign will depend upon a number of factors.

A Chance to Go

Will bank credit actually be expanded? The answer to this question lies in the hands of the Federal Reserve system, the banks of the country, and the hoarders. The Federal Reserve is now freed of obstacles to open market operations, which would increase bank reserves and, if carried far enough, might literally force the expansion of credit. The Reserve system has recently been indicating a desire to bring about expansion, but the extent to which it will go is unknown.

The banks of the country now have behind them practically all possible backing. They can go either to the Reserve system or to the Reconstruction Corp. if they are in need. With such backing they will be able to finance any calls that may be made upon them. Whether or not they will be willing to do so is the greatest enigma of the whole move. They already have been accused of "cowardice" by Senator Glass, and lectured severely by Ogden L. Mills, now Secretary of the Treasury, though the charges are not entirely fair in many cases.

One important factor in their decision will be the trend of hoarding. Should they continue to be threatened with withdrawal of deposits they probably will follow the policies of recent weeks. However, if confidence is restored sufficiently to stop hoarding and bring funds back, as seemed to be the case this week, that deterrent will be eliminated. A halt in bank failures, which the bill is generally expected to effect, will help.

The Hoarding Question

Another determinant will be the lending policies pursued by the Reconstruction Corp. and the Reserve system. If their policies are liberal the banks doubtless will act accordingly. How far the

What Congress Did

The Senate:

Defeated LaFollette-Costigan proposal for direct relief for the unemployed.

Confirmed nominations of Ogden L. Mills to be Secretary of the Treasury, Arthur A. Ballantine to be Under Secretary.

The House:

Passed Glass-Steagall emergency banking bill.

Passed bill revising radio act.

Adopted resolution authorizing loan of $10 millions to Agricultural Credit corporations.

Reserve goes in open market operations will be an important matter.

The other major factor which will determine the success of the move is business. Credit expansion, to be effective, requires that the credit be put to work and, aside from speculation, business is the only outlet. The applications for loans made to the banks will go far in their determination to expand or not to expand.

A considerable business demand apparently exists. The demand for credit for actual expansion is limited. Much more important is the demand for funds to enable businesses to replace obsolescent machinery with modern equipment that will lower costs and permit sales at lower prices, with all that means in competitive advantage and as a lure to new business.

Upon the action of business will depend the effect on prices, for prices will be set by the supply of purchasing power put to use. If prices rise, that rise will draw more money from hoarding, will tend in itself to stimulate business further and to relieve the crushing burden of debts contracted at higher price levels.

To the securities markets the bill has one very vital meaning. It should halt, at least for a time, the necessitous selling of securities, especially bonds. This will give such buying as comes into the market a chance to raise prices.

Taxes Must Be Higher, Wider and Harder

SECRETARY MILLS raised the tax ante this week. The Treasury's estimates sent to Congress in December had been computed on a basis viewed through rose-colored glasses.

Taxes then proposed (*BW—Dec 16'31*) were expected to raise $920 millions. They won't, says Mr. Mills, and other revenues then expected won't materialize. In net he asks for $337 millions more to carry out the Treasury's program of balancing the budget by 1934. And that will be sufficient only if the original budget proposal can be lowered by $118 millions, which Mr. Mills believes possible.

He suggests an additional ½% on corporation taxes to bring the total to 13%, an additional 1¢ stock transfer tax, and higher surtax rates that will begin at $6,000 instead of $10,000. And he would like 2 new taxes, both discussed as possibilities for some time —1¢ a gallon on gasoline and 7% on electric and gas consumption (*BW—Feb10'32*).

The proposals simply tell the story of a distressed Treasury still facing diminishing receipts, and still fighting against the proposal of a general sales tax. However, Mr. Mills has admitted that a general sales tax of 2% is still getting Treasury consideration and is still a possibility, although he prefers the selective taxes recommended.

Plan "Baby Bonds" For Hoarders Only

A PLAN for short-term "baby bonds," to be used partly in the government's financing, chiefly to aid the compaign of Colonel Knox to coax money out of hoarding, is being drafted by Secretary Mills.

The Treasury—never enthusiastic about the scheme—is determined there shall be no Liberty Loan drive ballyhoo. It is afraid that such methods would pull money out of savings bank accounts rather than out of hoarding. Its plan, undertaken on the President's agreement with Colonel Knox that the "baby bond" idea is a good one, will try to prevent this.

The Treasury Proposes

Proposals: Interest rates from 2% to 2½% to keep the investment from being attractive to savings depositors; a provision whereby any bank able to show that money to buy "baby bonds" was withdrawn from its accounts can get the government to leave the money on deposit; another permitting the banks to protect such deposits by collateral as provided under the "war loan" provisions, which, as a matter of practice, virtually means anything in the way of collateral that the government may be willing to accept, including commercial paper.

The appeal to the hoarder is expected to be, not the interest rate, but the absolute safety insured by very early maturities on these bonds. The Treasury thinks they will appeal most to the small hoarders, that the big ones would be much more apt—if and when converted—to buy government bonds paying 3¾% or 4½%.

Despite the Treasury's opposition to ballyhoo and drives, Colonel Knox intends to spur his local committees to do their utmost to have hoarders purchase "baby bonds." The chief uncertainty as to the final provisions of the program lies in whether he will be satisfied with the drastic restrictions Mr. Mills proposes to add.

International News

CAUSTIC—*Cast in the role of the bankers' best friend, Senator Glass proved himself their severest critic when he coupled his plea for the credit expansion bill with a scolding for its "timid" beneficiaries*

Rail Reconstruction Loans Held to Immediate Needs

THE Reconstruction Finance Corp. will not provide a reservoir of money into which the railroads can dip freely for funds. Rather, their requests will be most strictly scrutinized and limited by the Interstate Commerce Commission, which must pass on all applications.

Policy was indicated by the first 2 loans to railroads this week. The Wabash receiver applied for $18.5 millions; $7.1 millions was approved. The Missouri Pacific applied for $24¼ millions; $1½ millions was approved. These decisions do not bar further loans, but apparently loans will be approved only for immediate needs. This formulation of policy raises doubts about approval of Pennsylvania's application for funds to carry on its electrification project (*BW—Feb17'32*).

There have been no indications as to whether this I.C.C. policy is that of the Reconstruction Corp. on all loans. The corporation announced that several loans to banks had been approved, but no details were given. One reason for the strict limitation in the case of the railroads was the large volume of their applications—reported at $600 millions.

Howl for Tax Reduction Drowns Out Cry for Jobs

Politicians, caught between taxpayers and constituents, cut constructive work to save a bookkeeping dollar

POLITICS is a business, too: the business of spending money. In good times, this means jobs for the faithful and contracts for the favorites. But politicians, with their hands on the public purse-strings, must keep their eyes on public opinion, for it is only by adjusting one with the other that they are able to stay in business.

Unfortunately, their heavy hands and jumpy reflexes permit only two adjustments: wide open and tight shut. Always they overestimate what the public wants or will stand for; always, in times like these, their retrenchments are likely to be as wild as their extravagances (*BW—Feb3'32*).

Thus, their present reaction to the cries of the jobless and the laments of the taxpayers is the astonishing attempt to dole out direct relief with one hand while they shut down on public works with the other.

This remarkable blindness to logic is not limited to .22 caliber municipalities. While the big guns on Capitol Hill are booming over the question of federal relief, they are also shooting federal roads appropriations down from the touted $125 millions to some $60 millions, about $15 millions below even the normal grant.

Cuts Come Out of Wages

Since about 80% of highway costs go to wages, this cut will have a direct effect on employment; what is saved on work, somebody will have to pay out in relief.

State governments are doing the same thing. New York may wipe out a $13-million road-building program and other important construction projects which would provide thousands of jobs. Meanwhile, the state is spending $20 millions to relieve citizens already out of work.

New Jersey, likewise, has cut $9 millions off the budget. Included among the dead are the promising highway construction program, $1.7 millions for new schools, and various other items which would have provided employment.

Alabama has an $18½-million deficit, can float no more bonds without a constitutional amendment. Salaries, personnel, and construction projects have been heavily slashed in Louisiana. Georgia spent $19 millions on roads during 1931, will spend only $16 millions for the same purpose during the next 18 months.

Can't Sell Bonds

Municipalities contribute a large share of the public works total and their condition is generally worse than that of states. In the state of Washington, for instance, there are signed and sealed public and semi-public projects totaling $10 millions, which are held up for just one reason: absolute inability to sell municipal bonds. Thus does the bond market affect the bread line.

The increasing difficulty of tax collections points to probable reduction of municipal construction. Reports to Moody indicate that delinquent taxes this year are at least twice as great as in 1930, many times greater than in 1929. Percentage of delinquencies in typical cities: Atlanta 17%; Atlantic City 43%; Austin 10%; Birmingham 45%; Boston 18%; Dallas 65%; Grand Rapids 21%; Knoxville 30%; Passaic 38%; Pontiac 42%; Waco 74%; Camden 29%; Hoboken 24%; Milwaukee 80%; New York 18%; Trenton 28%; Flint 49%; Lynn 30%; Sacramento 55%.

Conditions in New York, Chicago, Philadelphia, and Detroit need little further comment. New York has suspended its entire improvement program totaling $110 millions. Detroit, in order to get a $12-million loan to carry it through the summer, must slash its expenses $6 millions more, has already cut them from $80 millions to $61 millions. To make this reduction it plans to close schools a month early and to lay off 135 firemen and 200 policemen. Philadelphia is trying to cut its budget $7 millions, will get most of it by making 25% police and fire pay reductions.

Smaller Cities In Same Boat

Smaller cities have not escaped. Houston has suspended all improvements, has cut municipal costs 40%, has been refused further loans until its budget is balanced. Five Massachusetts cities have had to suspend payrolls because of lack of funds. Campbell, Ohio, is nearly bankrupt with $51,000 bonds in default and unpaid 1931 salary and other bills for $95,000.

Of course, the howl for tax reduction cannot be dismissed as wholly un-

Acme

GANGING THE PRESIDENT—*Labor union heads, 106 strong, representing 5 million workers, storm the White House with demands for direct federal aid for the unemployed, particularly for passage of the $375-million La Follette-Costigan relief bill, later voted down in the Senate*

justified. Politicians have spent while the spending was good. But, except for financing, and the inevitable political preliminaries (such as purchase of schoolhouse lots) there has not been much waste. Qualified observers see most municipal projects as satisfactorily run as most private projects.

Most municipal tax money is spent on "maintenance." And the cost of maintaining safety and schools goes up in times like these. So the small proportion for new projects is the first to be hit because no taxpayer wants a cut at the expense of his safety or the schooling of his children.

Even the biggest possible reduction of expenditures would reduce individual taxes but a few dollars.

Economy is always necessary, but widespread criticism is being aroused by the shortsightedness which sacrifices constructive work to save a bookkeeping dollar. Summarizing this viewpoint, *Engineering News-Record* asserts that it believes in economy, but not in false economy; that to throw men out of employment on constructive jobs and shift the cost to the breadline account where the jobless must go for sustenance, is ruinous economy and does not reduce public expenditure.

Six Eastern States Study Unemployment Reserve Program

Proposal based on employer contributions avoids pitfalls common to state insurance schemes

COMPULSORY unemployment reserves are closer to becoming a part of the industrial setup of 6 Eastern industrial states—Massachusetts, Connecticut, New York, New Jersey, Pennsylvania, and Ohio—than they have ever been before. An Interstate Commission on Unemployment Insurance—representing the governors of these 6 states—has just recommended unanimously the establishment of statewide reserve systems in which each employer of 6 or more persons would be required to set up reserve funds to provide unemployment compensation for his own employees.

Under its recommendations, funds, maintained by 2%-of-payroll contributions by employers, would be held, invested, and disbursed by an Unemployment Commission representing labor, industry, and the public. Benefits would be payable at 50% of average wage or $10 a week—whichever is smaller—for a maximum of 10 weeks during the year. Employees would become eligible for benefits whenever their weekly wages were 60% of normal. When any employer's reserves equalled $50 for each employee his contributions would be reduced to 1% of payroll; with reserves of $75 per employee, employer contributions would cease.

Safeguarding Features

Most interesting features of the proposal are: its segregation of each employer's reserves instead of pooling all in a common fund as is general practice in European systems; and the definite limitation of the employer's financial liability to the fixed amount of his unemployment reserves.

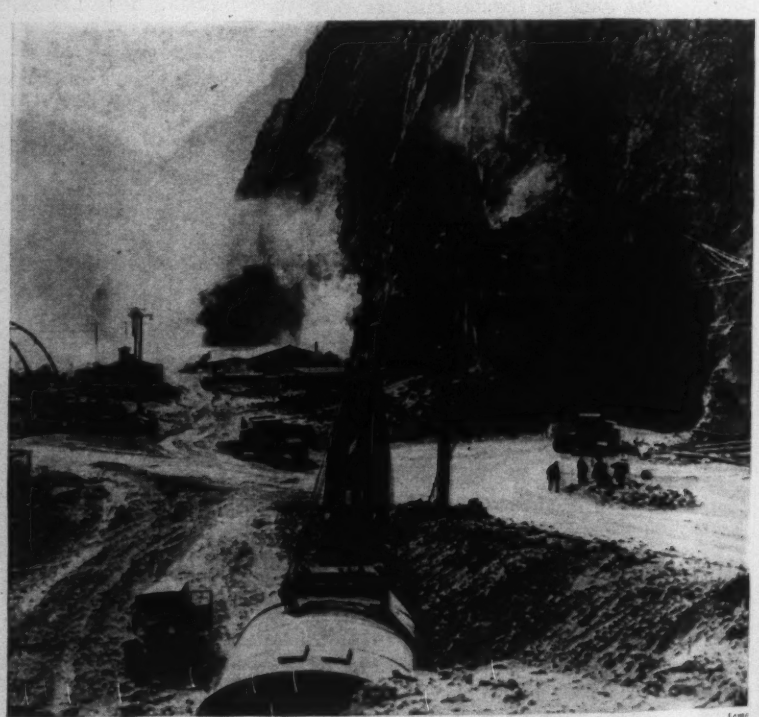
These 2 features are expected to avoid the troubles which most other compulsory, state-sponsored insurance plans have encountered. By the segregation of funds each employer becomes directly responsible for his unemployment costs; they are not influenced by the good or bad employment records of his competitors and associates. Reduction or elimination of his contributions resulting from better employment measures becomes a direct incentive to greater stabilization efforts.

Keeping the Government Out

Fixing the liability for relief at a definite limit avoids the invitation to supplement inadequate reserve funds with government subsidies, to mix reserve and relief funds indiscriminately, and to adopt other practices which have tended to wreck many of the European insurance plans.

In recommending that only employers contribute, the commission points out that under the moderate benefits provided the plan still places the larger share of the burden upon employees. They will get only 50% of their usual wage at best and will be protected to this extent for only 10 weeks of the year. Another reason was further to encourage stabilization activities by employers.

The commission recommends the exemption of firms or groups which have set up their own plans to provide benefits at least as large as those proposed



ONE PUBLIC WORK WHICH GOES ON—*Amid the tendency to save on taxes by limiting construction, remarkable progress has been made on the Hoover Dam (known as Boulder Dam among the Democrats)*

in the interstate plan. Pointing out that no system of unemployment reserves can function effectively without an adequate employment service, it calls for rapid extension of present public employment systems in all 6 states and would place them under the authority of the new Unemployment Commissions.

Since each governor named a personal representative to the commission it seems likely that its report will be as favorably received by the other governors as it has been by Governor Roosevelt, who has already transmitted it to the Legislature with the recommendation that it be enacted into law.

Department Store Cashes Building and Loan Shares

WITH many building and loan associations of New Jersey invoking rules requiring 30-, 60-, 90- to 120-day withdrawal notices, because they are unable to turn frozen mortgages into dollars as quickly as withdrawal of paid-up shares demands, Kresge Department Store, Newark, N. J. (personally owned by the head of the Kresge variety chain), has decided to build some goodwill and added sales volume, by offering credit and cash to temporarily embarrassed shareholders of sound associations.

The plan cuts red tape to the minimum, requires only the share-owner's assignment to Kresge, determination of amount involved, and acknowledgment of assignment from officials of the building and loan association.

Then Kresge opens a credit account with a stipulated maximum based on the paid-in value of the shares and the customer can immediately start charging against that balance purchases of food, clothing, necessities, regardless of how long Kresge may have to wait for payment by the association.

Where a shareholder's situation is desperate, cash advances will be made up to certain limits.

Response by the public during the first 2 days of its operation indicates that the plan will be popular.

Depression Takes the Iron Out of Ironclad Leases

Shortage of store tenants makes owners willing to rent on sliding scale or take a cut on sales

CAUGHT between the devil of annoyingly frequent calls for interest, amortization, tax or assessment payments, and the deep sea of a steadily shrinking supply of acceptable tenants, the landlord of 1932 has lost most of his predepression lordliness, become meek and submissive, increasingly ready and willing to play partner with business tenants rather than face losses, possible failure or foreclosure.

Terms of publicly recorded revisions of old or recent leases reveal steadily growing cooperation between landlord and tenant, a mutual desire to keep each other in business and acceptance of the so-called "percentage lease" as one of the most equitable means to that end (*BW—Oct21'31*).

Revisions have occurred chiefly in connection with high-class retail locations and have been in favor of tenants of unquestionable financial standing, whose tenancy formed an obvious asset to the property.

Where revised terms have continued the fixed rental they reflect the conviction that for 2 or 3 years potential profits will be low and the retailers' fixed overhead must be reduced if he is to survive. Therefore, drastic cuts ranging from 10% to 50% have been granted for the years up to 1934 or 1935, when a gradual return to original rentals is provided for.

Some landlords have taken advantage of the tenants' demands for revision to obtain insertion of a cancellation clause where previously none was included, thus becoming able to repossess if an exceptional upswing in values should make such action desirable, or to use the clause as a club for increased rentals when conditions permit.

New leases on retail stores, when made at specific fixed rental, reflect a general state of uncertainty on the part of both landlord and tenant, with neither willing to make long-term commitments. Both insist on specifying a definite "way out" for all definable and undefinable emergencies, thus reducing the value of such leases to the moral responsibility of the signers.

Wise landlords and able retailers avoid these and other objections to the fixed-term or other old types of leases through use of the percentage form (basing rent on a percentage of gross sales), which is today considered the best method for giving both parties a fair opportunity for returns, providing greatest flexibility with least likelihood of becoming an instrument of speculation.

Used by Chain Stores

Advocates of the percentage lease point to its increasing use by chain stores. Chains find the fixed percentage-of-sales plan advantageous in many ways, and nationally operating companies, such as The Great Atlantic & Pacific Tea Co., United Cigar Stores Co., John R. Thompson, Lerner's, and variety chains are extending the practice. Some chains have resumed expansion today because they can get flexible terms on advantageous locations and use them as equalizing factors against their still effective high-cost term leases.

A. S. Beck Shoe Corp. recently closed a 10-year lease providing for a minimum yearly rental of $12,000 plus 7% on sales in excess of $150,000, to a maximum rental of $15,000. Standard Oil Co. leased a New York garage at a rental of 1¢ on each gallon of gasoline sold.

After only 2 years of broad application the technique of percentage-basing is developing an abrupt reversal of principle.

Earlier leases involving a "sliding scale" percentage started with the highest rate on the minimum sales total with the percentage gradually decreasing, sometimes down to one-quarter the original amount, as sales climbed.

Of late landlords have advanced the theory that if initial minimum quotas and percentages are equitably established, any increasing sales volume justifies higher percentages.

A Rising Scale

Thus a New York chain store lease, recently closed, calls for 8% on up to $200,000 annual sales, 9% on the next $50,000 and 10% on sales over $250,000 annually and gives the landlord the right to cancel at the end of any year after the first 7½ which nets him less than $24,000 in rental.

Some leasing agents for chain stores are capitalizing the stability of their clients, inducing landlords, hungry for tenants, to consent to percentage ratios substantially below what the tenant actually could pay and the landlord really must have to pay carrying charges.

To assist its members in establishing

rent-percentages that are equitably based on competitive conditions and determining profit potentials of each line of business, the National Association of Real Estate Brokers will soon publish results of a nation-wide survey of rent ratios.

According to that report automobile agencies should pay 1½% to 2% of sales for showroom rental; department stores, 3% to 4%; grocery chains, 2½% to 4%; cafeterias, bakeries, meat markets, radio shops, up to 6%; furniture, sporting goods shops, 5¢, 10¢, 25¢ to $1.00 variety stores, up to 7%; cut-rate drug stores, independent grocery, hardware, clothing, apparel, tobacconist's, music and shoe stores, up to 8%; regular drug stores, haberdashers, restaurants, candy, automobile accessories, book, electrical, fur, hosiery stores, and beauty shops, 10%; millinery, art shops, dealers in trunks and leather goods, 10% to 12%; florists and barber shops, up to 15%; storage garages, up to 50%.

Refrigerator Sales Battle Moves Into Lower Price Range

SALES pressure continues to increase in the mechanical refrigeration industry. Early this year, the fight for a share of the expected million-unit sales became a battle of terms (*BW—Jan20'32*). Now, refrigerator makers are carrying the struggle into the lower price brackets.

Kelvinator, with January, 1932, shipments on its regular lineup 23% over 1931, and its Leonard line 34% higher, follows Frigidaire (*BW—Feb10'32*) with a lower priced line. Interior arrangement and mechanical equipment of the new "K" models are similar to the standard grade but the exterior is finished in Duco, and prices are at least 10% lower.

Copeland, with late 1931 sales ranging up to 40% above 1930, reduced 1932 prices on its entire line, offers 13 models, in 3 different price ranges.

The Radio Invasion

With 3 of the "Big 10" group of manufacturers now reaching out for extra volume through a lower-priced line, similar moves by the others are expected, particularly because many lower-priced lines are now available, and the invasion of the field by radio manufacturers is apparently gaining momentum.

Grigsby-Grunow is continually expanding distribution of its Majestic line, has just announced 6 new models.

Crosley Radio has just entered the battle with the long-promised low-priced line, two models selling at $99.50 and $139.40.

F.A.D. Andrea (Fada radio sets) is offering 6 models ranging from $179.50 to $265, and the Sparton radio family is supplemented with 3 refrigerator models at $186.50 to $284.50.

Meanwhile, more manufacturers of ice refrigerators have started stop-loss maneuvers, have begun to market electrically operated models.

Bohn Refrigerator Co., one of the largest in the field, has launched a line of 5 models at prices ranging from $202 to $542.

Maine Mfg. Co., 57-year-old maker of White Mountain refrigerators, has developed an electrical unit in collaboration with B. F. Sturtevant Co., begun to market them under its White Mountain trademark, proposes to insure a backlog of sales volume by offering the equipment to private-brand buyers, has booked its first large private-brand order from R. H. Macy & Co.

With its long-wanted private brand made possible, Macy is now pushing 5 models under the Macy name at prices ranging from $169 to $349.

The Macy affiliate, L. Bamberger & Co., not selling exclusively for cash, offers the Macy $169 model under its own brand for $174, other models correspondingly higher. Terms: 12, 18, or 24 months, with 10% down and carrying charges on balance compounded at 3% per annum interest.

Westinghouse Offers Dealers New Sales Plan

ON the theory that a combination of several electrical household appliances can be sold by a single concentrated effort, if combination instalment terms are made available, the merchandising department of Westinghouse Electric & Mfg. Co. has launched a new plan for budget buying.

Merchandising departments of central stations and department stores enjoyed a distinct advantage over other retailers in that they gave buyers opportunity to buy many items through one type of contract, on one account, make instalment payments at one central point.

The new Westinghouse plan gives independent dealers an opportunity to offer the same advantages.

Purchasers are enabled to buy any group of Westinghouse appliances they may select under a single contract, make a single down-payment, the amount of which is based on total purchase price, then make single weekly or monthly instalment payments also adjusted according to total purchase.

Westinghouse wholesalers will provide authorized Westinghouse dealers with all necessary cooperation in sales planning, help capitalize the new plan of building larger sales through combination selling.

Responsible dealers, who are unable to finance locally the instalment contracts originating under this plan, will be able to "discount" them through the Commercial Investment Trust, Inc.

-Keystone

PFENNIG MOVIES—*Germany, famous for its* ***catch-penny*** *slot machines, now has a real film projection device for one-man shows*

Eastman Adds Value Instead of Cutting Price

INSTEAD of going through the complicated procedure of cutting prices on a product sold all over the world, Eastman Kodak Co. will give its customers

more for their money. Its 2 most popular Kodak film rolls, carrying 6 exposures, have been lengthened to allow room for 8. At the same time, it is discontinuing 12-exposure films in these sizes.

Finding that the 2 sizes involved account for 80% of its roll-film business, the company decided to leave prices on other sizes undisturbed.

This 25% reduction in cost per exposure—practically back to pre-war levels—is expected to stimulate picture-taking and particularly increase the business in photographic print paper.

To get a supply of the new 8-exposure sizes into the dealers' stocks prior to the public announcement of the change in the May magazines, it is offering retailers special assortment "deals."

Brass Tacks Replace Ballyhoo In Cities' Promotional Campaigns

Pretty pictures and resounding slogans are replaced by solemn but solid census figures

City advertising has reached the brass tack era.

It is evident that business executives who finance and guide the selling effort of Industrial Development Committees or Chambers of Commerce are applying what they have learned in their own businesses, that merely pretty pictures and glib generalities are today ineffective selling.

They conclude that the manufacturer or merchant looking for a new location will want genuine evidence by which to measure the desirability of a proposed location. They accordingly insist that civic publicity shall present pertinent factual data.

Philadelphia's Business Progress Association in conducting a comprehensive sales campaign is using a booklet crammed with facts and figures. This shows the city's importance as a center of distribution, and the wealth of the area it can serve economically; contains many charts and graphs developed at great cost, but not a single picture.

Acme

THE HALIBUT FLEET SPLITS UP—*To satisfy Eastern holders of surplus frozen halibut, the Seattle fleet will sail in 2 groups to stagger deliveries, avoid further depression of prices when the fresh fish come to market*

The Los Angeles Chamber of Commerce's Industrial Department has taken the census data showing the city's remarkable growth in population, manufacture, port activities, retail business; has developed valuable sales material, has a brisk campaign under way.

Boosting the Port

In Boston the Chamber of Commerce is using census figures to develop further the city's wholesale and retail activities. Definite plans are under way to stimulate use of the city's port facilities through cooperation between local government and business.

The Industrial Development Committee of the Cleveland C. of C. uses a special 1931 market survey containing valuable statistics.

The San Francisco Chamber of Commerce claims that its city can do a general distribution job in 11 Western states, highly concentrated selling in 3; has launched a campaign to sell its port, production, and distribution facilities to manufacturers who want Pacific Coast factories or branches.

But the Denver Chamber of Commerce thinks that the Rocky Mountain states, included in San Francisco's group of 11, form the logical hunting ground for Denver manufacturers, wholesalers, and distributors; has developed definite figures showing how much of various commodities is bought outside of the territory; is campaigning to enhance Denver's importance as a distributing center by urging manufacturers and merchants to buy from distributors within the territory.

The Cincinnati C. of C. through the research division of its Industrial Department has prepared some convincing factual material for use in a current campaign to sell Cincinnati to new business enterprise.

Factual Data

Detroit, Kansas City, Syracuse, Chattanooga, Bridgeport, Fort Wayne, Reading, Pa., have prepared comprehensive surveys that show the importance of their cities in the respective areas and provide valuable factual data by which their suitability for location of factories or stores can be measured.

Wilmington, Del., tries to lure new industries with detailed results of a most costly survey enabling manufacturers to estimate in advance the effect of practically every important external factor entering into his production cost.

The San Diego, Calif., and Spokane Commerce Chambers now are compiling special material.

In numerous cities the newspapers

have taken results of the U. S. Census of Distribution, other government data, to establish facts regarding manufacturing, wholesale and retail volume in various lines within the trading radius and are supplying the finished surveys to local organizations for distribution to prospective new industries or wholesale or retail establishments.

A special survey by *The Business Week* shows that in 37 out of 51 reporting cities, the local civic organizations were ready with decidedly factual "sales" material or had special material and selling campaigns in course of preparation.

Restaurants Multiply For No Reason at All

PROMINENT among our national aberrations is the belief that when all else fails one can still open a restaurant. The extent to which this was indulged during 1931 is indicated by the Bureau of Hotels, Restaurants and Purveyors, San Francisco. In the face of a decline in the number of patrons and a shrinkage in the average meal check, a record number of hopeful new restaurants flung their shingles to the wild winds that blow in through the Golden Gate.

A third of all new San Francisco business enterprises was restaurants. The average was more than one a day. During 1931 the total of new restaurants was 504, which was 101 more than the 1930 figure. Accompanying this 20% jump was a corresponding increase in the number changing hands —332 in 1931 against 295 in 1930.

There is an ebb in the number of persons eating in restaurants; curtailed income is causing a return to the home range and the succulent tin can. Persons served during 1931 were 22,749,000, a decline of 11.5% from 1930. Total sales decreased 19.8%. When the typical diner finished last year, he paid the cashier 40.7¢. In 1930, it was 44.9¢.

Costs Still High

These factors bearing down from the top, met the pressure of others from below, increased the danger of financial pinch. Percentage of labor and of rent cost was higher compared to gross sales. In 1931 labor ratio was 34.8%, against 32.8% the year before. Rent, 10.6% in 1931; 8.7% in 1930. Here is a confession of reduced menu price without a corresponding cut in costs. The food showing was slightly better. Its percentage of cost to dollar of sales fell from 43¢ to 42.4¢.

Restaurant Chains Link Up With the Rent Cut

ONE man's dirge is another's dance tune. While landlords sing sadly of the times, restaurant chains prepare blithely to resume expansion in choice locations at reduced rentals. Groceries can multiply in the residential skirts of cities; restaurants must follow the crowds to high-pressure shopping districts. During the boom restaurant chains bid feverishly against one another, were burdened with heavy leases which deepened the depression.

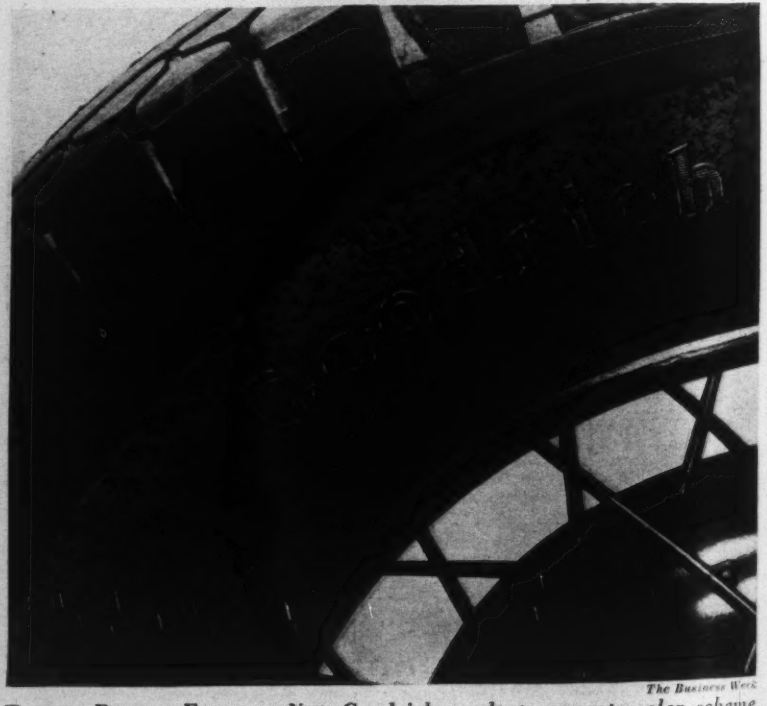
Comes now the Frank G. Shattuck Co. (Schrafft restaurants and candy stores) with the announcement that it is time to expand. Its net profits in 1931 were some $1,700,000 compared to $2,486,237 in 1930. Inventories have been cut; in the strong box reposes about $5½ millions of cash, government, and short-term municipal bonds. During 1931 the only new Schrafft unit opened was in the Chrysler Bldg., New York. Now the management is attracted by offers of choice locations dangled before it.

Childs', once the champion collector of expensive locations, is wondering whether it ought to step out again. Horn & Hardart, ending the Sept. 30 year with a higher net, is picking up good corners in New York. Loft continues its expansion in neighborhoods, now has 132 stores in Greater New York. Bickford's, Inc., New York, ended the year with record sales largely the result of expansion around New York and Boston, and the acquisition of a San Francisco lunch chain.

Independents Alarmed

This is bringing the same reaction as did a similar phenomenon in the grocery business. Independent restaurant owners in New York, fearful of competition from the chains, want an organization of their own. About 100 have approved a plan which would include only owners of single restaurants or operators of small chains. Each would retain 50% of stock in his own restaurant, the other half to be held by the corporation.

Any restaurant doing business under a 1929 lease is in danger of a broken back. *Restaurant Management* advises independent owners to go frankly to landlords and ask for rent reduction to 1931 levels. It cites the case of a cafeteria owner paying $1,950 monthly, who armed himself with records of comparative receipts. He laid these before his landlord, inviting him to meditate upon the possibility of finding another tenant if the cafeteria had to close. The landlord saw the point, cut the rent to $1,000, which represents 8% of sales.



The Business Week

TIRES A BEAUTY FACTOR—*New Goodrich product supports color scheme as well as car itself. A special process welds different shades into tire walls*

Limitation on Extra Fares Can Be Met Without Hardship

Cut in number of "luxury" trains means little since a few account for most of the revenue

THE railroads' practice of charging extra fares on fast and de luxe through trains is not objectionable, providing the number of extra-fare trains is limited to one-third of the total in operation between any 2 points, so as to ensure a reasonably adequate service without extra fare. But extra fares are unjustified when passengers have to change trains en route.

So said the I.C.C. examiners in their report to the commission, following an inquiry to determine whether extra fares are reasonable and lawful.

Hits New York–Chicago Run

If the Interstate Commerce Commission adopts this report, 30 extra-fare trains may have to be taken off the New York–Chicago run. Out of the 90 through trains in operation daily between these 2 cities, 60 charge extra fare. A radical change in services will also be necessary between New York and 8 other Middle Western points, as two-thirds of the daily trains between them are subject to extra fares.

The proposed restriction is not expected, however, to work hardship either upon the roads or the public, for, according to the I.C.C. examiners, the bulk of extra-fare travel is carried by relatively few trains. The New York Central, for example, runs 30 extra-fare trains but collects 92% of its extra-fare revenue on 4 of its fastest ones.

Combination Service

The Eastern railroads are prepared to eliminate extra fares on "combination service," involving transfer from one train to another, if the commission allows them to maintain the present extra-fare charge of $1 per hour for through service. They object, however, to the proposal that the extra fare for through service must not exceed the aggregate of extra fares charged on the same train between intermediate points. The I.C.C. examiners, who found many instances where the aggregate of intermediate fares is less than the through fare, say this is contrary to Sec. 4 of the Interstate Commerce Act. They argue that extra fares usually bear some relation to distance and point out that the underlying principle of Sec. 4 is that the compensation to the carrier shall be generally measured by the quantity of service rendered. The railroads, on their part, contend that time and not distance is the essence of the extra-fare service, that most of their extra-fare revenue comes from through business and that, consequently, Sec. 4 is not applicable.

Extra-fare business has been steadily growing in volume, and the railroads say that if the premium were reduced or eliminated, it would have a serious effect upon their revenues, although they are unable to show the cost of handling extra-fare trains. Obviously, the fast service requires outlays that cannot be wholly charged to regular passenger service, as safety at high speed calls for heavier rail, more elaborate signal equipment, reduction of grades, and straightening of lines. Non-revenue space also averages higher on extra-fare trains because of the luxurious character of the equipment provided.

Extra-fare collections by roads operating between the Atlantic seaboard and the Middle West, which is the principal territory for the excess charges, totaled $4.7 millions in 1923; $6 millions in 1926; $6.3 millions in 1927, and $6.5 millions in 1928. Recent revenue returns were not covered in the I.C.C. investigation. Refunds required by the failure to make train runs in the time advertised have been relatively small, and the downward trend from $273,000 in 1923 to $200,000 in 1928 points to steadily improved operating efficiency.

The great bulk of the extra-fare service is maintained by the Pennsylvania and the New York Central, whose combined extra-fare revenues account for 99% of the total.

Once More the Intercoastal Lines Make a Truce—and Maybe, Peace

AMERICAN intercoastal steamship lines will make another attempt at self-regulation when their new plan for the stabilization of rates goes into effect Mar. 1.

Whether they will manage this time to preserve order and peace for long, is not so certain. The duration of past agreements would indicate that this may be just another truce.

The last agreement collapsed exactly a year ago. Fierce competition broke out as a result of declining traffic and excess tonnage, and for 12 months the intercoastal trade has been in the midst of a rate war that has impoverished many an operator.

The Slower the Cheaper

Details of the new accord, which must be approved by the U. S. Shipping Board before it can become effective, have not yet been made public. It is understood rates will be based on speed and frequency of service; smaller lines operating slower vessels will be permitted to offer lower rates. The former pooling arrangement, under which the strong operators had to turn over excess earnings to the weaker lines, probably is eliminated, and provision has been made for violation penalties.

Calmar Line, Bethlehem Steel subsidiary, and the U. S. Steel's Isthmian Line have not joined the new plan, but are expected to stay in line with the others on rates.

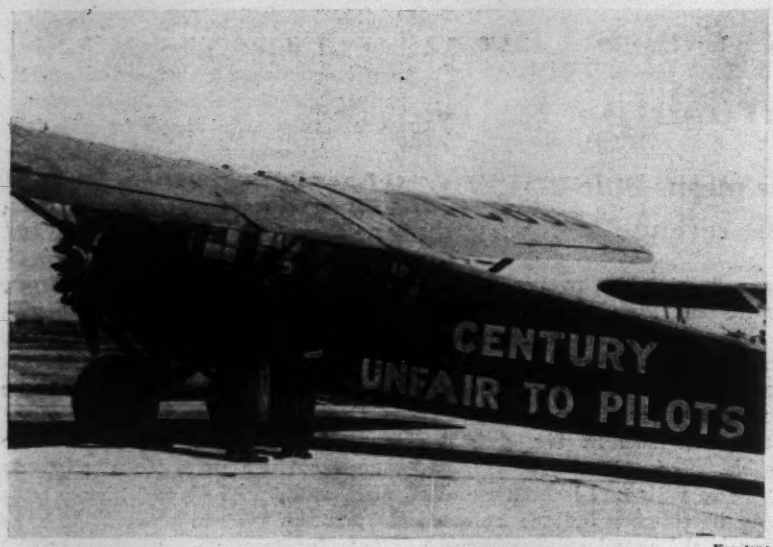
The smaller lines feel happy. Opposed to government regulation, some of them hope this stabilization of the intercoastal trade may remove the prospect of federal control. The larger interests, however, including Dollar, Luckenbach, Panama Pacfic, and American–Hawaiian, still believe government control is the only permanent solution.

Compromise on Regulation

Of the same mind is the Shipping Board, which is sponsoring a bill to bring about such regulation. As originally proposed, the measure aimed at all shipping, foreign as well as domestic (*BW—Dec30'31*). But to expedite action, the Senate Commerce Committee narrowed the bill to intercoastal trade.

It is doubtful, however, if Congress will take final action at this session. Some of the committee members in both houses think that the matter should be proceeded with slowly, with an eye on the effects that federal regulation of intercoastal lines may have.

The Supreme Court this week held



Keystone

FIRST AIR LOCKOUT—*Chicago pilots, 2 of 21 who refused to take a pay cut, about to take up their "picket plane" which meets all air liners*

the Shipping Act of 1916 gave the Shipping Board virtually the same jurisdiction over water carriers as the Interstate Commerce Commission exercises over the railroads. U. S. Navigation Co. alleged Cunard and other lines violated the anti-trust laws by monopolizing general cargo trade between the American North Atlantic ports and the British Isles. The Supreme Court held the complaint was within the jurisdiction of the Shipping Board.

Eastman Rate Plan Meets Rail Approval

RAILROADS and shippers are waiting with keen interest for the new rail rate-making bill that the House Committee is drafting behind closed doors.

Hearings on the measure ended after the National Association of Owners of Railroad and Public Utility Securities and the Railway Business Association (representing railroad supply interests) had joined the chorus of assent to the flexible rule of rate-making, devised by Commissioner Eastman and accepted by roads, shippers, and regulatory commissions, provided that it is coupled with retroactive repeal of recapture of excess earnings (*BW—Feb10'32*). Interstate electric railways, whose status always has been in dispute, also urged that Section 15a be scrapped.

There is little objection among the House committee members to revising the rate-making rule, but whether excess earnings recapture is to be repealed *ab initio* or only for the future is another question. Congressmen feel little concern for a road that has been able to earn more than 6%, but they may change their mind when digesting testimony which shows that the roads' excess earnings are still nothing more than an estimate and are based upon a valuation formula involving accounting, engineering, and litigation that has already cost the government $40 millions and the railroads over $175 millions.

Senator Couzens, to whose mercy the bill will be exposed in the Senate, is opposed to retroactive repeal of recapture, but says he has an open mind on its repeal for the future and adoption of a flexible rate-making rule, eliminating a fixed percentage of return on valuation. The administration's position was made plain when the President in his message to Congress gave blanket endorsement to all I.C.C. recommendations for rail legislation.

Railroad men are immensely gratified with the service that Eastman has rendered in working out a simple alternative to the complicated mechanism of rate-making and recapture of excess earnings. Their enthusiasm may be tempered, however, by what he will have to say at hearings opened this week on the bill to give the I.C.C. control over the merger-making activities of railroad holding companies. Eastman does not condone the short-comings of the railroads. His reason for pulling for them now is that if all pull together, they will come out of a bad hole.

Railroads Cooperate To Boost Revenues

FOLLOWING the Interstate Commerce Commission's advice in the 15% freight rate case, an unprecedented program of railroad cooperation to raise additional revenues through tariff readjustments is getting under way.

A forward step in this direction was taken at a conference of Eastern and New England railroad executives in New York last week, where it was decided to make a survey of rates with the idea of revising them on specific commodities, upward or downward, as competition from other transport agencies may demand. Other roads are expected to take similar action.

Besides readjusting rates, rail carriers will try to put rate changes into effect at shorter notice—5 days, instead of 30, as now required by law. A modification of this rule, they contend, is essential to meet the competition of truck and water carriers, which can change rates without any notice. California roads have asked that state's Railroad Commission for permission to remove the recent emergency freight rate increases on 5 days' notice, but their plea has just been denied on ground that the reasons advanced by them were insufficient.

Shippers Call Reciprocity Cure Worse Than Abuse

SHIPPERS, who kept mum when the Interstate Commerce Commission was prying into the practice of reciprocity in railway purchases and traffic routing, are beginning to raise vigorous protests against the recommendation of I.C.C. examiners which would deprive them of the right to designate routing (*BW—Feb3'32*).

The American Petroleum Institute declares that a cure prohibiting producers and refiners from controlling the movement of their own tank cars would be a greater evil than the abuse.

Fruit and vegetable shippers assert that their distribution will be sadly upset, point out that the marketing of perishable produce is made possible only by the maintenance of flexible service.

In the opinion of the New England Traffic League, the proposal would place shippers at the mercy of the railroads, and New England would suffer severely by it. Claiming that the abuses of reciprocity involve only a limited number of railroads and shippers, the League believes that they can be corrected by some more reasonable means.

UPWARD TO HOME!

HIGH in an apartment and away from the buzz and bustle of a busy city, two happy-faced children watch eagerly from the window for the familiar figure of daddy. Now they see him and they can hardly wait until an elevator speeds him upward to home.

Soon they'll pounce upon him with the lusty enthusiasm of youth. And he'll be showered with questions by the score. He'll have to answer to them for being ten minutes late. And he'll probably say a traffic jam held him up.

He'll never blame the elevators for making him late . . . not in this building. For the building owners have secured the services of the maker, Otis Elevator Company, to maintain them . . . to inspect them regularly and adjust all working parts . . . to replace a worn part before it causes trouble . . . to attend to the cables, the motors, the brakes . . . to keep the entire installation running smoothly.

To give constant, uniform service, an elevator, like any other fine machine, must receive regular inspection and expert care. That is why Otis Elevator Company, maker of the finest elevators known today, keeps a large staff of highly trained elevator mechanics who do nothing but care for elevators. These men are stationed in squads all over the country, where they can be of most service to building owners. These men know an elevator . . . know it from top to bottom. Their services may be secured at the Otis office in your city.

★ ★ ★

Before you sign another lease for an apartment home or office quarters, first inquire if the elevators are cared for by Otis. This point is important.

OTIS ELEVATOR COMPANY

Little Business Bites the Hand That's Supposed to Feed It

Small independents, asking 2-year moratorium on anti-trust laws, suggest new technique of revision

LAST week another hunger march moved on the White House and asked the President for help. This time it was a little army of unemployed employers, hungry for prompt, constructive action to enable business to stabilize employment, improve purchasing power and protect capital investment by permitting agreements under the anti-trust laws to control production and fix prices. Representatives of small, independent business concerns in 125 diversified industries, with a few labor leaders, sponsored this appeal and put a specific proposal before the President. The trade associations as such and "big business" were not in the picture. It was a spontaneous "uprising" of the smaller business interests and labor, reflecting for the first time a new approach to the problem that promises to be of political importance.

They based their plea on the assertion that uncontrolled competitive conditions enforced by the anti-trust laws are destroying the smaller independent enterprises upon which employment depends, forcing them out of business or into mergers with monopoly powers, putting them at the mercy of the big buying concerns, depressing purchasing power and wrecking confidence among the business community and the public.

Suggestions to Hoover

Main points in the proposal presented at the White House were (1) that the President sponsor and promote the idea of a 2 years' truce in destructive competition"; (2) that he secure the advance support of Congressional leaders —as in the case of the reparations moratorium—for a temporary suspension of the anti-trust law provisions preventing agreements among competitors to control production and fix prices, leaving those provisions prohibiting monopoly or oppression of the public fully in force; (3) that he select a board of business leaders to supervise and promote the spirit of the truce; and (4) that he suggest establishment of a joint Congressional committee to study the operation and application of the anti-trust laws during the 2-year period, with the cooperation of the board.

The novel feature of this plan is the idea of Congress' undertaking a thorough analysis of the anti-trust problem on the basis of an experimental period of suspension of certain provisions of the laws and with the cooperation of a board of business leaders conducting the experiment and responsible for it. In this respect it suggests a new technique for approaching the revision of the laws, which it is generally agreed is necessary.

Administration "Interested"

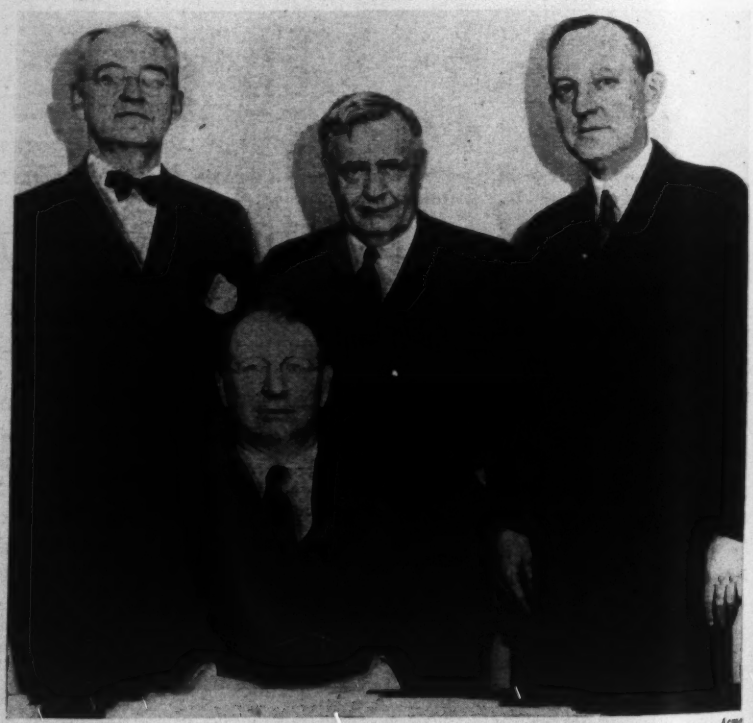
Although the President could promise nothing, there were indications that the Administration has become actively interested in the issue. He warned them that the price of suspension of the anti-trust laws must be greater governmental supervision and regulation of business and the real problem for it to face is what sort of such regulation it is willing to submit to if it could not undertake to control itself.

The group that met in Washington last week is expected to proceed to draft a specific legislative proposal for further consideration. Several such bills are being developed by different interests, and a move has been made in the House to carry out the President's recommendation in the last session for a study of the anti-trust laws. Bills now before Congressional committees, especially those introduced by Senators Nye and Walsh, have to do mainly with revising Federal Trade Commission functions and procedure, or with conditions in the natural resource industries, and there seems to be little chance that any of these specific measures will get far this session. Congress is too preoccupied.

Labor Joins the Plea

But the issue has been rapidly opened wider by the drastic deflation of prices and employment. With labor joining the smaller business concerns in demand for a change in public policy, continuance of current conditions would probably force a moratorium in this as in other fields. Rising prices under an inflationary movement would take the edge off the issue temporarily but it will inevitably crop up again.

The demand for protective devices for capital investment and labor employment is becoming more insistent



Acme

"COUGH UP"—*Col. Frank Knox (in front, as is not unusual for him) and, left to right, Col. Homer McKee; James Keeley, who used to be a newspaper man, himself, now v.p. of the Pullman Co.; and John M. Van Der Vries—all of whom will try to lure dollars out of socks*

and the two are increasingly coupled together in public opinion. This fact gives the issue increasing political importance which party leaders are beginning to recognize. Powerful opposition to the trend is possible only from farm groups, and this is offset by the fact that complete privileges of cooperative action have already been given to agriculture, although they have not proven effective.

Liquid Sugar Is Sugar, After All

AMERICAN sugar refiners have suffered defeat in their legal battle with U. S. government authorities to save $100 millions a year in customs duties by importing Cuban raw sugar in liquid form (*BW—Feb18'31*).

The unanimous decision handed down by the New York Customs Court this week, after a year's waiting, upholds the government and the domestic sugar producers, who contended that liquid sugar is sugar, not syrup, and consequently liable to the 2¢ rate.

Thus come to a definite close, perhaps, the efforts to maintain the ingenious practice, started by several refiners over a year ago, of bringing Cuban sugar here as syrup in the hope of paying a lower duty. Raw sugar was dissolved in water, with a small quantity of formaldehyde to prevent fermentation. This was done outside the 3-mile limit, and after passing customs the mixture was converted back into sugar at the refinery.

Because of the novelty of the product, for which the Tariff Act made no specific provision, some cargoes managed to get through at the sugar syrup rate of ¼¢ a gallon, less the Cuban differential of 20%, but customs authorities promptly ordered the commodity taxed at the regular sugar rate, on the ground that it was essentially sugar.

The Customs Court agreed with this conclusion, holding also that the article had never been known in trade prior to the shipments involved in the present case. While domestic sugar producers denounced liquid sugar imports as fraudulent, the court was not inclined to go that far.

Fern Picking Gets To Be a Business

FERNS from the great evergreen forests of Western Washington find a ready market in Middle West and Eastern centers, according to distributors who

It makes your advertising results more certain

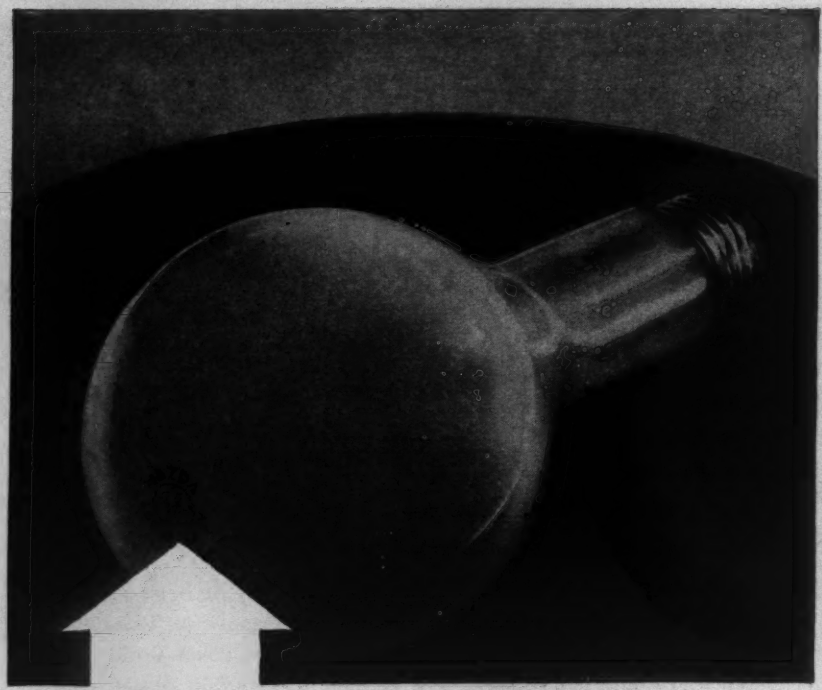
Don't expect prospects to search for your nearest dealer. Don't take that risk! Tell them, in your advertising and broadcasting *exactly* how and where to find him.

List your dealers *under your own trade name* in the classified telephone books. Then refer to these listings in all your advertising. This simple device insures against waste in advertising. Continued use by well-known companies testifies to this fact.

Discuss "Where to Buy It" with your agency or write or telephone Trade Mark Service Manager, American Telephone and Telegraph Company, 195 Broadway, New York, N. Y. (EXchange 3-9800)—or 208 W. Washington Street, Chicago, Illinois (OFFicial 9300).

● ***THE advertisement reproduced below is one of a series now appearing in The Saturday Evening Post, Collier's and The Literary Digest. This keeps picturing to the public the convenience of "Where to Buy It."***

Insurance Companies—Cont'd
That local agent / /
at your Finger Tip
Where is that "nearest agent" or "nearest dealer" mentioned in the advertisements?
For the answer look in your classified telephone book. You will find Ford, General Electric, Sherwin-Williams and many other well-known brand names.
Use this handy "Where to Buy It" guide. You save time. And you get exactly what you want—not "something just as good."



If this mark could SPEAK *it would* SAY . . .

"I represent 25 years of research, out of which has come every important development in lamps and lighting practice.

"I have helped to save the American public more than two billion dollars in their lighting bill during the past ten years . . . first, by initiating improvements which have increased the efficiency of lamps, and, secondly, by reducing their cost 48%."

PEOPLE who are employed where they have to use their eyes constantly are able to work faster and better in good light than in poor light. Dim light causes eye-strain, bodily fatigue, and is responsible for reduced efficiency and expensive mistakes. No place can be well lighted for long with poor lamps.

Edison MAZDA* Lamps give brighter light than non-standard lamps, and stay bright longer. Write the General Electric Company, Nela Park, Cleveland, Ohio, for free information concerning light in your establishment.

*MAZDA—the mark of a research service

EDISON MAZDA LAMPS
GENERAL ELECTRIC

operate out of Chehalis, Wash. This is a new industry which is developing rapidly and reaches the annual production peak during the holiday season. Last year's turnover was $100,000, of which about 75% is paid to pickers, some of whom earn up to $4 daily.

Life Insurance Buying—Or Selling—Improves

LIFE insurance started 1932 with new vigor, total insurance paid for in January being 6.4% above January a year ago.

Except for a tiny ½% gain during December over December, 1930, this was the first pickup since that of June, 1930, over June, 1929. The increase comprised 3.3% in ordinary, 1.5% in industrial, 42.8% in group insurance.

The increase in volume of premium payments provided the companies with new investment money except as it was absorbed by rising policy loans. This particular aspect was noted with interest in Wall Street.

Explanations of the increase varied. Some took it at face value as proof that people are more widely realizing the value of insurance, that their outlook is more optimistic. Others believed that at least part of the rise was due to the especially hard drive of salesmen in November and December, backed by the argument that several premium increases were slated to go into effect Jan. 1. Some business sold in those months was paid for in January. Thrift Week, with its Life Insurance Day (Jan. 21), also had an effect on the totals. Preliminary reports indicate that the unusual efforts put forth on that day brought in sales amounting to $125 millions.

Correction: Fewer Roads Mean Fewer Road Jobs

IT was reported here recently (*BW—Feb3'32*) that a survey made by the Portland Cement Association indicated that as many road jobs would be available this year as last. This was an incorrect quotation. Federal aid expenditures for the calendar year 1932 will be at least $110 millions less than for 1931 according to Thomas H. McDonald, chief of Bureau of Public Roads. There are no indications that state expenditures will be increased to meet this deficit; rather, many states are eliminating or drastically curtailing their road plans (page 7).

Acme

CHICAGO UNIONS TAKE THE CUT—*Left to right (seated) are P. F. Sullivan, president of the Building Trades Council; E. M. Craig, secretary, and George W. Griffiths, of the Building Construction Employers Association; standing, are O. W. Rosenthal, president of the Builders Association, and Edward Haupt of the Iron League. They agreed on a 20% cut in the wage scale, affecting 125,000 workers, to stabilize Chicago building*

Illinois Taxes Incomes To Relieve Property-holders

Farmers put over program that allows landlords and home owners to shift part of the load

ILLINOIS is the twentieth state to enact a personal income tax. Corporate income is not to be taxed. Both houses of the legislature have passed the bill recommended by the Governor's Tax Conference. That the governor will sign it is taken for granted. It may or may not be constitutional.

Illinois has an antiquated constitution that makes tax reform to relieve real estate difficult. A new constitution was turned down by the people a few years ago, partly because of the income tax threat in it.

The Illinois statute makes a sincere and intelligent effort to lighten the tax burden on property. In fact, great care has been taken to insure its doing nothing else. All the revenues raised (estimated $25 millions or better) are to go into the elementary school fund for distribution back in the counties where children are being educated. Property taxes are to be abated to the extent that such funds are available. The income tax is sufficient to pay around 30% of elementary school expenses. With school expense running as high as 35% or 40% of total government costs in many communities, the relief is tangible.

The property taxpayer gets 2 more breaks. First, income from taxpaying property is, in effect, exempt. Thus the man who gets half his income from rents may reduce his computed income tax one-half. Second, taxes paid on a home, up to $100, are deductible from the computed income tax.

At rates imposed, running from 1% on the first $1,000 taxable net income, up to 6% on incomes above $25,000, a man will pay $100 tax on a taxable net income of $5,000. If he owns a home, upon which he pays $100 or more in taxes he can deduct $100, which renders his income tax zero. If he does not own a home, he pays, even though the landlord may have the real estate tax included in his rent. Thus he is to be taxed for not owning a home. To this extent, then, the law is an inducement to home ownership.

Farmers put the Illinois tax over. It was a straight city *vs.* country issue. Though the tax mess in Chicago was what really brought the issue up at this time, and the law was enacted almost exactly as prescribed by a committee made up mainly of eminent Chicago citizens, the Chicago legislators were agin' it, almost to a man.

The Farm Argument Won

Farmers have a convincing argument as to the justice of transferring costs of education to a state income tax. They contend that for lo, these many years, rural communities have been educating boys and girls who then go to cities where they use this education to make money. John C. Watson, able tax leader of the Illinois Agricultural Association, presents a few figures based on the 1920 census which show that, if Chicago population were distributed by age groups corresponding to that of the rest of the state, the city would have had 86,324 more children of 7 to 17—with millions of dollars added educational expense—and 190,300 fewer persons of 18 to 44—people that were educated at some other government's expense.

Additional arguments that helped sell the income tax to thoughtful Illinoisans were: that it is to the public interest that direct taxation fall on more people, making citizens more interested in government efficiency and economy; that high-cost government is inevitable where a minority pays direct property taxes and a majority votes for public improvements, bond issues, etc.

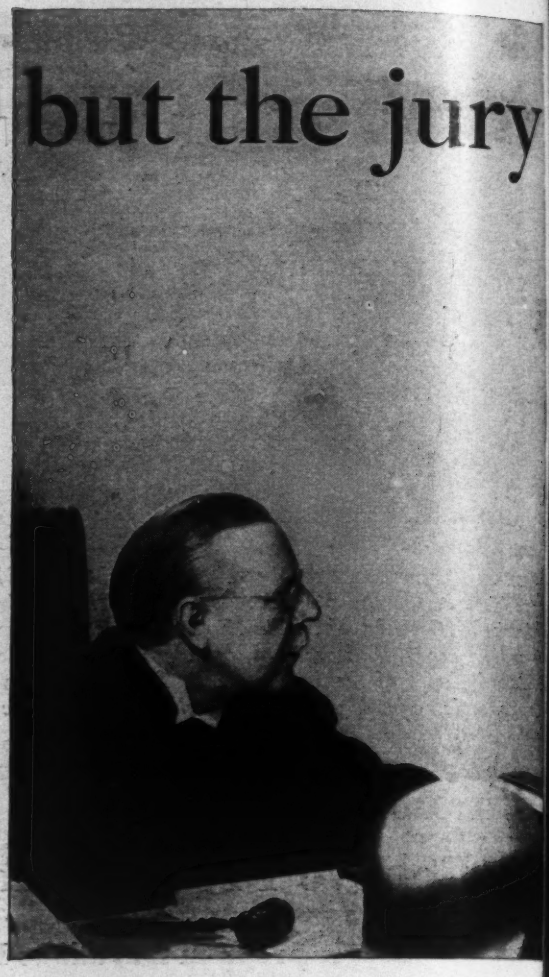
Illinois will be one of the few states that do not tax capital gains, and make no allowance for capital losses. The wisdom of the federal policy on this matter, which most states follow, is now open to question. Taxation of capital gains pushed the 1929 stock boom higher by preventing realizing sales and drove the depression deeper by adding tax-selling to other liquidation.

More of 'Em to Come

Business men will do well to expect more state income taxes, mainly on personal income. Only 3 states tax corporate income alone: Connecticut, California, Montana.

While the idea of the income tax is old—the colony of Massachusetts imposed one back in 1633—state income taxes started in real earnest in 1911, Wisconsin being No. 1. A year ago there were 16 taxing personal income. Since then, Vermont, Idaho, Utah, and now Illinois, have been added. Twenty other legislatures considered income tax proposals at the 1931 sessions. They will consider them again in 1933, and some will enact them.

Guilty! but the jury



Court-room NOISE *was wiping out convincing testimony. Johns-Manville made it possible to* HEAR *perfectly . . .*

"Mr. Foreman, have you agreed upon a verdict?"
"We have."
"How say you?"
"We, the Jury, find the defendant NOT GUILTY."

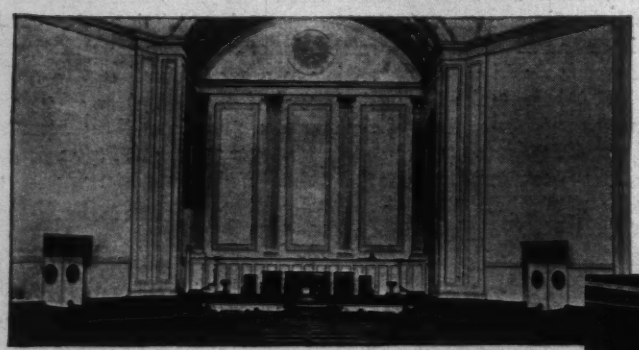
It is outside our province to dispute, in any way, the carefully considered decision of the Jury. The case is closed and sealed, officially. But actually the defendant was *guilty*. Step by step, the cross-examination of the witnesses revealed that fact. Step by step—logically and convincingly, the prosecution proved it.

Then why did the Jury render the opposite verdict?

Because they could not hear the *complete* testimony. Because noise and faulty acoustics, within the court room itself, prevented the Jury from getting a clear, concise, uninterrupted picture of the case. *Because, in all sincerity, they dared not convict this man on spotty and insufficient understanding of the evidence.*

NOISE did it. Invariably noise "does it." Noise was so damaging in the Fulton County Court House, Atlanta, Georgia—for example—that it was even necessary to stop court proceedings when street cars passed.

NOISE can be blotted out. Faulty acoustics can be eliminated. ABSOLUTE QUIET, perfect hearing conditions can be substituted instead. J-M Acoustical Treat-

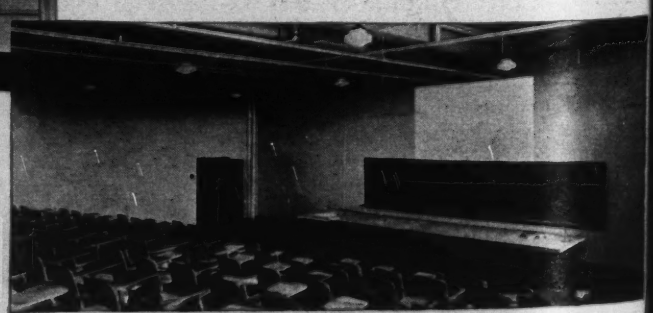


A church divided against itself

Those who sat no more than halfway back in the First Presbyterian Church, Chattanooga, Tenn., might hear the minister. Beyond that, it wasn't possible. Sermons produced entirely different reactions on the same audience. J-M Acoustical Treatment was applied. Acoustical properties are now reported *excellent.*

Lecturer's voice bounced like a ball

Lecture rooms in the new Chemistry Building at Hamilton College, Clinton, N. Y., presented a serious problem. The lecturer's voice "bounced" against the hard interior surfaces, produced annoying echoes. Students had to "strain" to hear. It was impossible to face the blackboard, talk at the same time. During Christmas recess, 1930, these rooms were acoustically treated by Johns-Manville. Now the lecturer faces the blackboard—talks. The students hear perfectly.



refused to convict—

ment shut out all the distracting noises from the Fulton County Court House here mentioned. With equally impressive success, Johns-Manville has achieved acoustical perfection in schools, churches, theatres, hospitals, court rooms, offices, auditoriums, dining cars, in fact in public and private meeting places of every type and description. Result—added efficiency, added comfort.

Whether your problem is noise quieting or acoustical correction, Johns-Manville has the method, the materials, the experience to solve it. Ask to have a Johns-Manville Acoustical Engineer call. Address Johns-Manville, 292 Madison Ave., New York City.

"Distressing to patients, doctors, nurses"

The importance of *quiet* in a hospital cannot be overemphasized. Noise has a most serious effect upon the patients. Also upon the doctors, nurses and attendants who are responsible for the care and recovery of the patients.

When, in 1926, specifications were prepared for the Bethesda Hospital, Cincinnati, Ohio, sound-absorbing treatment was not considered necessary. Noise complaints from patients and staff soon after the hospital opened, however, proved this to be an unfortunate decision.

J-M Sanacoustic Tile was first installed on the ceiling in one of the corridors. When this work was completed, improvement was so marked that other corridor ceilings were treated. Today, J-M Acoustical Treatment has been applied in the administration offices as well as other parts of the building. Everyone is impressed with the prevailing *quiet*.

Johns-Manville

JM

Controls

HEAT, COLD, SOUND, MOTION

Protects against

FIRE AND WEATHER

Utility Holding Companies Find "Leverage" Can Work Both Ways

Slight drop in subsidiaries' earnings compounds into crushing pressure upon the parent

PUBLIC utilities, especially those with complex boom-time financial structures, at last are feeling the strain of depression after having been practically exempt for the long period during which most other types of business institutions have been undergoing a gruelling test. Already 2 utility holding companies have gone into receivership. The outcome of present developments will be of major importance to the future of the utilities.

The electric light and power industry is the center of the present situation. During the past decade consolidation, actual if not official, has progressed at a very rapid pace. In many cases, control of operating companies has been purchased by small holding companies, control of these by larger holding companies—and the process continued until 3, 4, and even 5 holding companies formed a pyramidal superstructure on the operating companies. Depression practically halted the process, but by that time 10 to 12 large holding companies virtually dominated the entire utility industry.

Consolidation Paid

This financial consolidation was encouraged by the steady profitableness of the business, by its stability, and its monopolistic nature. Its rapid development necessitated the use of a rapidly increasing amount of capital which could best be raised by large central organizations of high credit standing. These companies could also hire the best of engineering and managerial skill. Regulatory bodies and the courts have been comparatively liberal to the utilities during recent years, generally allowing anywhere from 6% to 8% as a "fair return," usually based on reproduction cost of equipment, as contrasted with the maximum of 6%—and that unrealized—which was allowed to the railroads.

Profit Possibilities

Consolidation of control, encouraged by these factors, occurred to a large extent. Some operators, by the investment of sums small in relation to totals and by borrowing the balance, could realize enormous profits, while their own margin of investment was very small. The stable and increasing income from the business made lenders willing to advance the money. The financier could make a considerable profit by borrowing with bonds at, say, 5% to buy properties permitted to yield 7% to 8%.

Others, who made their acquisitions many years ago at reasonable prices, or who made them through exchange of shares, have not profited so greatly, but are in a much stronger condition today.

This multiplication of profits on borrowed money through a succession of holding companies is called leverage. Speculators and investors were enthusiastic over its possibilities. But all neglected to notice that leverage could work both ways. It could wreak terrific destruction, as well as build great profits.

Signs of Trouble

And so, although largely exempt from depression's perils in earlier months, troubles are now developing in the utility field on an extensive scale and with a varying intensity depending upon the financial set-up of the individual institution. Operating revenues have shown some diminution. The decline is still small, only 1.6% for the industry in January compared with a year ago, more for some concerns, less for others.

But the small drop in operating revenues is multiplied several times to become an appreciable drop in the income of the holding companies and, in view of the thinness of the margin on which some of them operate, the situation is serious.

Heavy Maturities

The strain is worst on those companies which have maturing obligations, and several holding companies, as well as a good many operating companies, have a considerable volume of maturities to meet this year. The amount of obligations actually retired in previous years has been larger, but this resulted from refunding obligations before they were due. The total maturing this year is the largest in the industry's history for 2 reasons. First, a large amount of the borrowing done in the last decade has been for a few years, deliberately, in order to permit possible refunding at lower interest rates and consolidations of debt. Much of this borrowing is now coming due. Secondly, the utilities were among the leaders in the industries which participated in the Administration's program for maintaining and increasing construction in 1929, 1930, and early 1931.

The then unfavorable state of investment markets caused the utilities to do most of this work with money borrowed for a short time. Those borrowings are now coming due in a period when the investment markets are in an even worse state. Furthermore, utilities practically never build up sinking funds with which to meet obligations, depending entirely upon their ability to refinance.

A Tight Situation

In this situation some of the holding companies are very hard pressed and are finding lenders hesitant about putting up money. The weaker among the holding companies are unable to do anything for the operating companies, although their presumed ability to take care of financing was one of the major reasons advanced for establishing them in the first place. In cases where they are bereft of holding company aid, the operating companies are thrown upon their own resources. In exceptional cases, the holding companies are even going to the extreme of borrowing from the operating companies, a practice which is generally regarded as decidedly unethical.

No Direct Help

The utilities in this situation are not helped by the Reconstruction Finance Corp. directly, for it lends directly only to financial institutions, railroads, and agriculture. The new Federal Reserve legislation works the same way. In so far as they loosen up the banks these agencies work toward helping the utilities, but even so, the weaker holding companies are far from certain of aid, for they are so squeezed by the leverage factor that few lenders are willing to advance much more money.

One method of raising money is through sales of securities, usually preferred stock, to customers. But this already has been used fairly extensively and funds are increasingly difficult to obtain by this method. Furthermore, it takes time, and the needs in some cases are most pressing.

Tied to General Business

In view of the situation, the outlook is being scanned most carefully. In final essence, the future of the utilities seems to depend entirely upon general business. The decline in their revenues thus far has been by a smaller percentage than that in electrical output, for the

drop has been mostly in industrial power, sold at low rates. But further decline in business, or even failure of business to rally, is almost certain to send revenues lower, may even cut into domestic production which is the backbone of utility income.

Prospects Double-Checked

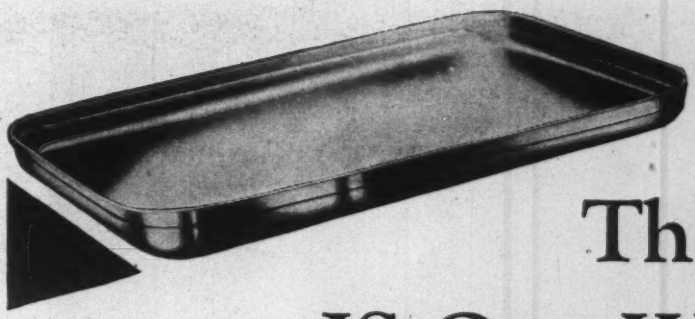
Uncritical analyses arriving at optimistic conclusions which have been accepted for some time are now being more widely questioned. The mere fact that many homes are unwired does not necessarily mean that they will be wired soon; in fact, nearly all of them are in such scattered areas that wiring would be quite costly. Sale of electrical appliances resulting in a larger use of power per consumer has been a great boon during the last year, but, barring a decided improvement in business, there is some doubt as to how much longer this factor can bolster up the situation.

At this juncture Congress has authorized an investigation of the industry. While the program is unannounced, holding companies are certain to be put under fire on allegations that some of them have controverted regulation, have engaged in questionable financial practices. The Reyburn investigation may also bring the question back into the political field from which it was departing.

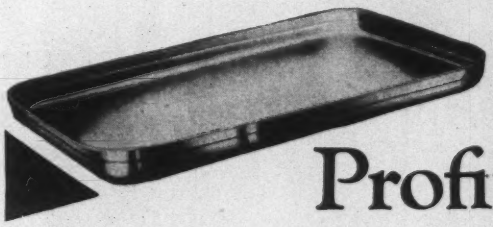
The Rate Question

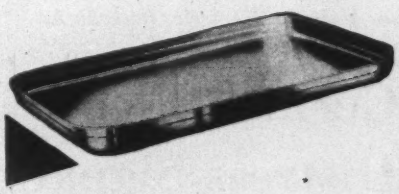
In the background of this situation, potentially quite important is the whole question of public utility rates and valuations. The utilities, as noted, have maintained with the railroads that reproduction cost of equipment is the proper basis for establishment of rates, for this basis has been most advantageous to them. Now the price level has dropped tremendously. What theory of rate-making is to be followed no one can say. If reproduction cost is adhered to, it will result in a reduction of rates and probably of revenues during coming years. Such a development would be serious, especially for the holding companies, due to the leverage factor. To abandon reproduction cost would be to do an about-face on the question.

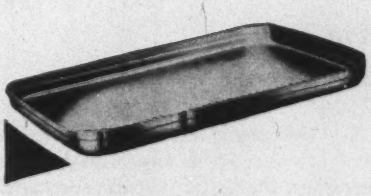
The problem of the utilities at the present is, therefore, largely a financial one, and its seriousness is most concentrated on some of the holding companies. Operating companies are in a much better situation, but may become involved in holding company troubles, depending on their affiliations. The degree of seriousness varies from institution to institution, and many are in excellent position.



There IS One Way to Help Profits NOW







Stainless Steel

This stainless steel sink bottom makes it possible to attach body with seam about an inch above bottom surface so that dirt cannot accumulate in seam. This stainless steel used plus the design add to the cleanliness and sales appeal.

THERE never were more than two ways to increase profits—increase income, cut costs. One way—the surest way—is just as easy now as ever—if you take a logical road.

More and more are taking the road which leads through G. P. & F. Stamping Service.

If you do not use stampings now, perhaps G. P. & F. designers can point the way around the obstacle which seems insurmountable. You will eliminate more costly materials and costly work. You may increase the sales appeal of your product—lighter weight, beauty of design and finish.

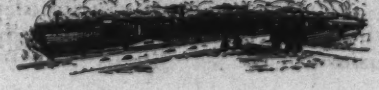
If you already use stampings, G. P. & F. may still save you money. A half century of experience has taught G. P. & F. many cost-reducing short cuts.

It costs nothing to find out. Send a sample or blueprint, or write for booklet shown below.

GEUDER, PAESCHKE & FREY CO.
Sales Representatives in Principal Cities in All Parts of the Country.
1407 West St. Paul Ave., Milwaukee, Wis.
366 W. Ohio Street, Chicago, Ill.

For your convenience just pin the coupon reminder to your letterhead and booklet will be forwarded.

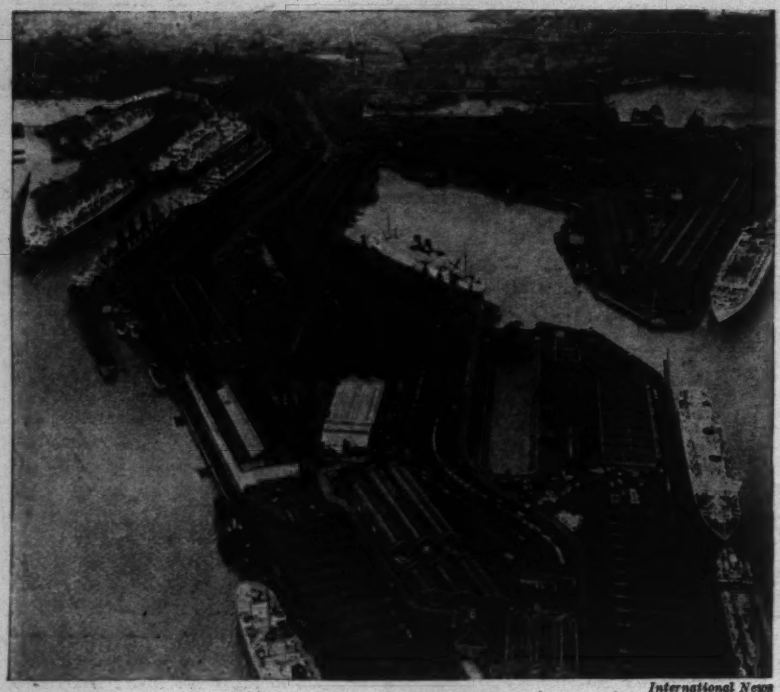
G.P.&F. STAMPINGS



GEUDER, PAESCHKE & FREY CO.
1407 W. St. Paul Ave., Milwaukee, Wis.

Please send your booklet, *"In Harmony with Modern Progress"* to the address below... without charge or obligation.

Name .....
Company Name .....
Address .....
City ..... *State* .....



International News

300,000 TONS OF BRITISH SHIPS—*At Southampton docks are 9 major vessels, tied up between voyages or out of service. Included are the Empress of Australia, Aquitania, Mauritania, Majestic, Homeric, Berengaria*

Even the Proud German Fleet Has Hoisted the Distress Signal

Lloyd-Hapag's troubles now seem likely to end in a subsidy and a real merger

EUROPEAN NEWS BUREAU (*Cable*)—Bold have been the boasts of doughty Germans that theirs was the only country that could maintain a major merchant marine without a national subsidy.

Little wonder, then, that oldtime Hamburg and Bremen seafarers and proud Berliners were stunned this week when recently whispered rumors concerning Lloyd–Hapag's financial position were confirmed. Overnight, it seems, Germany's superb merchant fleet is to fall into the class of the "government-subsidized."

The situation was revealed bluntly in Berlin. North German Lloyd and Hamburg American, popularly known as "Lloyd–Hapag" since they entered a pooling agreement in April, 1930, met outstanding financial obligations in December only when the Reichs–Kredit Gesellschaft granted a $4-million emergency credit. The German government guaranteed the credit against securities held in portfolios of the 2 companies.

But the credit expires Apr. 1 and there is no sign of improved business to warrant the belief that the companies can meet it alone. Further, North German Lloyd holds a $4-million credit from Dutch bankers which comes due in 1932, and Hapag $20 millions in German bank credits also maturing this year. There seems to be no way out except for drastic and immediate company refinancing. In the present state of world affairs, not even the excellent rating of the 2 companies is likely to secure the necessary aid without large-scale government backing.

In shipping circles it is generally expected that the Reich will demand immediate and complete merging of the 2 companies. It is probable, too, that government participation implies direct and immediate government subsidies in some form.

The crisis was caused not alone by the depression. Outwardly, the 2 companies pooled their interests in April, 1930. Actually, this meant an extensive rationalization of sailing schedules, not the full merging of branch offices and personnel that should have resulted. Each company had had a separate identity for too long, had struggled on a competitive basis too sincerely, to be able readily to submerge individual interests.

A Boast Spoiled

North German Lloyd with its 2 de luxe speed queens—*Bremen* and *Europa*—has succeeded in booking nearer capacity than any other transatlantic line. Hapag with its express freight service has suffered less than some lines. But all lines have run bows under since 1929, and, however well off Lloyd-Hapag is relatively, the proud boast, "Without government subsidy," seems about to go. Internal executive jealousies, rivalries, will be bared. Even the home ports—Bremen and Hamburg—will be forced to admit uneconomic expansion. The 2-year-old pooling agreement will probably, under severe government supervision, become a real merger uniting under a single economic organization the 444 ships of the 2 lines, three-fourths of the entire German merchant marine.

Outsiders see in the move a forerunner of similar drastic changes in marine policy in other countries, a forced rationalization of world shipping policy. Germans fear that government participation will deprive German shipping of its traditional fame for initiative and adaptability.

The Figures Show What Has Happened to Shipping

LLOYD'S summary of 1931 shipbuilding progress makes sad reading.

Tonnage built throughout the world ran only to 1,617,115. Compared with 1930, this is a drop of 1,272,357 tons, is the smallest tonnage built since 1909, with the exception of the war year, 1915.

Outstanding facts:

596 vessels were launched, 1084 the previous year;

Motor tonnage exceeded by 237,000 tons the output of steam tonnage (In 1930 it was also larger, but in 1929 it was only 84%, in 1928, 80%, and in 1927, 63% of steam tonnage);

Of total steam tonnage—683,000—about 538,000 was fitted to burn oil, so that tonnage depending exclusively on coal for propulsion was less than 10% of the world output;

Total tonnage launched in Great

Britain and Ireland was less than half that of 1930 and was the lowest recorded since the first issue of Lloyd's Register in 1888;

The output in Great Britain and Ireland (503,000 tons) represents 31% of world output, compared with 51% in 1930, 54½% in 1929, 53½% in 1928 and 1927, and 58% in 1913;

Of British-built tonnage, 41% was for foreign owners (highest percentage recorded by Lloyd's except in 1930);

More than 18% of total world output outside of Britain came from U. S. shipyards;

The 2 largest vessels launched were Italian;

Of the major marine builders, only Italy and France launched larger tonnages in 1931 than in 1930.

Independent Statistics

Other marine statistics not included in Lloyd's disclose the desperate conditions facing the shipping industry, throw light on the inability of Cunard so far to find funds to proceed with construction of the giant 73,000-ton superliner, of the French Line's financial straits which may force similar abandonment of work on the super-*Ile de France*, of rumors of further large mergers or pooling agreements;

Japan reports 60% of the country's tonnage tied up;

The British Chamber of Shipping reveals that 728 vessels, totaling more than 3 million tons gross, are laid up in British ports;

Denmark admits nearly 20% of all national tonnage is laid up;

German shippers report that nearly 20% of the 4 million gross tons of merchant ships are laid up and 8,336 seamen were out of employment at the beginning of the year;

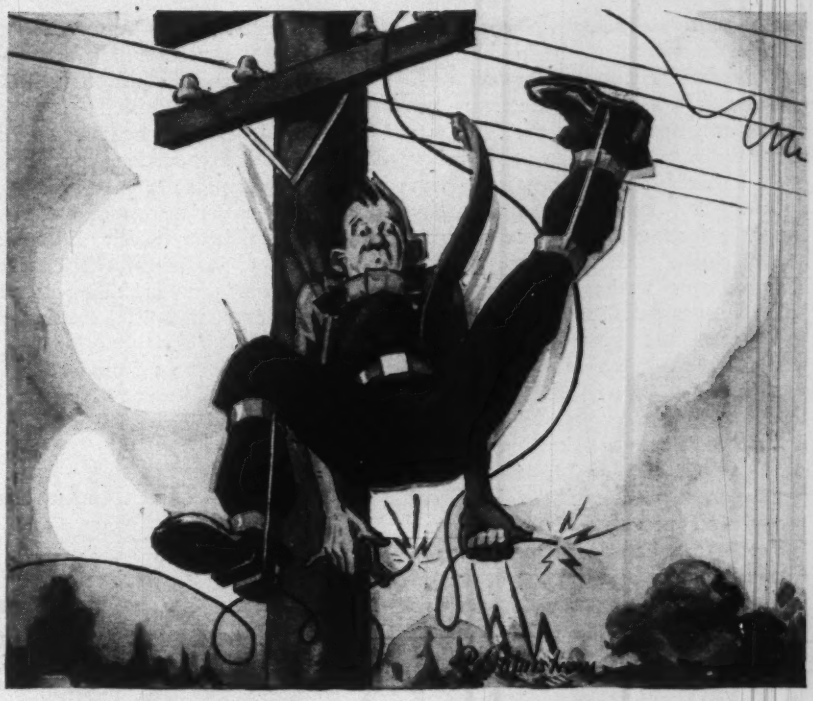
Dutch Vessels Idle

More than 100 Dutch vessels are tied up in home ports. The Holland-American Line has announced dismissal of 100 commanders and navigating officers.

Members of the Transatlantic Passenger Conference have called a meeting in Paris for April 1 to discuss plans to diminish destructive competition in the coming year.

Sugar Plan Likely To Get Another Chance

THOMAS L. CHADBOURNE's sugar restriction scheme is probably going to succeed, but for the last few weeks a battle has been raging between the 2 major producers—Java and Cuba—



"I guess I'd better go down and make out my report!"

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which at times threatened the plan. Still to be solved is the problem of special curtailment for 1932 which both Cuba and Java agree is necessary because consumption since the plan was adopted last year has been so far below normal that fresh surpluses have been built up and now are a contributing factor in forcing the price of sugar to abysmal lows.

Cuba some weeks ago expressed a willingness to curtail more drastically in 1932 than last year, provided Java would leave uncut a fair share of the present crop. Java refused, but agreed to cut acreage next year. This, Cuba insists, won't help the situation now.

Java Sees Light

Disgusted with the deadlock and pretty well provoked that last year's gallant efforts had failed to lift prices, Cuban planters and producers started talking unrestricted production for this year.

This has produced the desired effect. Java is ready to talk business. Francis E. Powell, American and former head of Anglo-American Oil but now chairman of the international sugar group with headquarters at The Hague, has cabled Chadbourne and the Cuban interests to hold off their decision fixing the 1932 crop. Java wants to cooperate, just needs a little time to settle the details. It is even hinted that the Java producers may curtail up to 50%.

So it seems that there is fair chance that the Chadbourne scheme, supplemented by special curtailment this year by the 2 major signatories, will succeed.

Study of the situation reveals that current low prices for sugar are not due to the failure of the Chadbourne plan. When world producers met in the series of European conferences last year, curtailment control figures were based on world consumption in normal years. In the time that has elapsed all of the participating nations have lived up to their agreements, and 2 important outsiders, Peru and Yugoslavia, have joined the group.

Difficulties Arise

Within that time, however, Cuba and Java have been unable to market even the amount allowed them in their quotas. Cuba, for example, has run into increased sales of domestic beet sugar in the United States, and larger imports (duty free) from Hawaii, Porto, and the Philippines, none of them members of the Chadbourne group.

Java has run into similar difficulties. Japan, China, and especially India have long been important outlets. Japan and India in the last 3 years have made important strides towards filling domestic needs from home production. China has taken smaller quantities.

The result is that both countries, despite drastic production cuts, have larger surpluses than a year ago.

A factor in the success of the plan is the curtailment which European countries (beet producers) effected during the current year. Excluding Russia, the total dropped 32%. Russia cut output 27%.

Java's reluctance to cut production in 1932 is due to an inherent difference in the organization of the industry. Java producers grow their own cane, handle the entire process. Cuban producers usually buy their cane from native growers. This allows for a more elastic handling of the Cuban output, the factories purchasing only such quantities of cane as they require within quota limits.

Java producers start planting in March, market their crop about May of the next year. It is curtailment of the marketing of last year's growth which Cubans are demanding and with which the Java producers seem about to agree.

With $250 Millions Due New York in 1932, Canada Tightens Belt

Balanced budget, fewer imports, railway economies the 3 essentials, says Premier

OTTAWA (*Special Correspondence*)—Canada has to pay New York $250 millions this year, interest and principal on government and corporation debts—a sum equal to the annual instalments due from Europe to Uncle Sam on war debts. This is the peak year, the totals due taper off sharply for some years to come. The heavy load falls in the year of deepest depression.

Canada is attacking the problem resolutely and competently. The Bennett government believes there are 3 essentials to preserving good credit standing abroad: an equitable trade balance; a balanced budget; solution of the railway problem.

The government excepts a favorable trade balance of $15 to $25 millions by Mar. 31. The adverse balance Mar. 31, 1930, was $103 millions. Higher exports and the discount on the Canadian

Acme

DIALED OUT—*Charles G. Loeb, president, and George Washington Lopp, both of the American Chamber of Commerce, Paris, call upon the French Minister of Commerce to protest the rigorous restrictions on French importations of radio sets. American sets are hit directly*

dollar have reduced imports. For 10 months ended Jan. 31, exports were $14 millions above imports. This records a considerable feat, for Canada's great exports, pulp, newsprint, wheat have shrunk in volume and price.

Spring will improve the balance of trade and boost the Canadian dollar. Opening of navigation on the St. Lawrence facilitates exports, and the tourist season begins, bringing $300 millions to the Dominion. The attraction of exchange discount is expected to stimulate tourist influx.

Budget balance will be achieved by the most drastic economies in the history of Canada and by heavy increases in taxation, to overcome a deficit presently estimated at $70 millions in general account, exclusive of $80 millions in National Railway account.

Budget Heavily Slashed

Financial appropriations presented to Parliament this week reveal an unprecedented slashing of $57 millions in expenditures for the fiscal year commencing Apr. 1. The greatest cut is $9 millions in public works. There is a $13-million increase in interest on public debt, leaving a net saving of $44 millions. There thus remains of the deficit in general account $26 millions to be met by additional taxation. It has not been the practice in past years to provide for National Railway deficits out of revenue, but the administration may seek to make up part of this year's deficit in that manner.

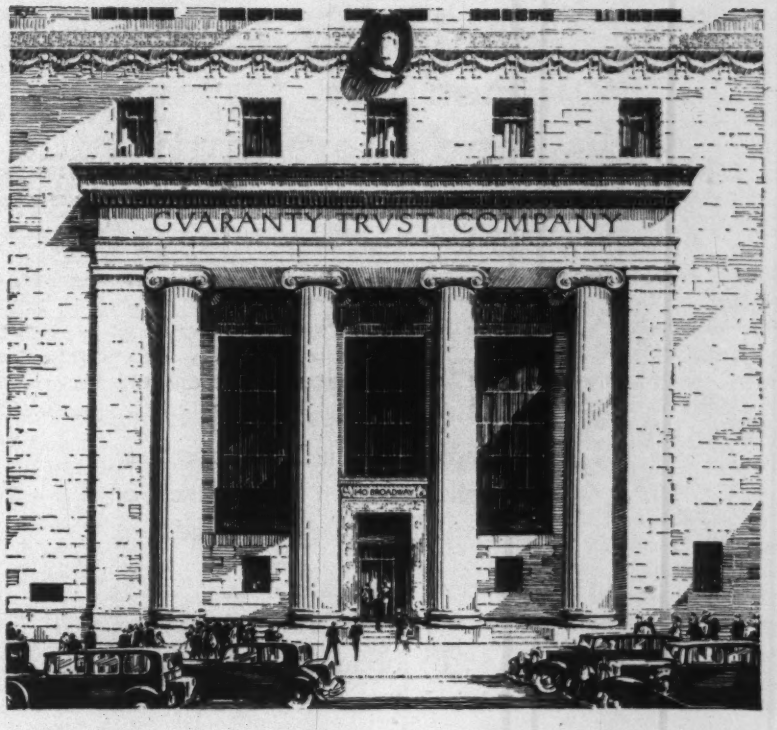
There will be increases in the income tax and possibly the sales tax, which was raised this year from 1% to 4% with disappointing results. Substitution of a turnover tax for the sales tax is favored by a section of the government but opposed by the business community.

Third essential, solution of the railway problem, is being approached through a commission expected soon to report recommendations for economies.

Dominion Buys Gold

The government is taking the entire output of Canadian gold mines—about $5 millions a month—paying for the raw gold in terms of U. S. currency, and thus is able to ship bullion required in connection with its obligations without weakening the currency and banking structures. No gold had to be shipped in 1930; in 1931, shipments were $31,737,899. Some $17,486,000 interest and $13,267,000 principal due in New York in January were paid by Canadian governments and corporations, despite the heavy premium required. No further heavy payments are due until summer.

Canadians are putting their savings



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"—and their honorable men *are* famished and their multitude dried up with thirst."

Isaiah V, 13.

THE paradox of an ancient past repeats itself today. Business and industry have been stalking down stark lanes of need in a land of abundance.

Why this paradox? Why cannot the accumulated needs be met out of this abundance? Why does business have to be becalmed behind land-locked credits, and industry anchored by plant-locked dividends?

The needs *can* be met, movement *can* be restored by producing goods *for less*, distributing them *for less*, and still at a profit.

Already it is being accomplished by the few who have enlisted every available aid which the Engineer could devise.

To the consideration of this subject, we offer you the benefit of an experience which has helped cope with the problems of four periods of depression.

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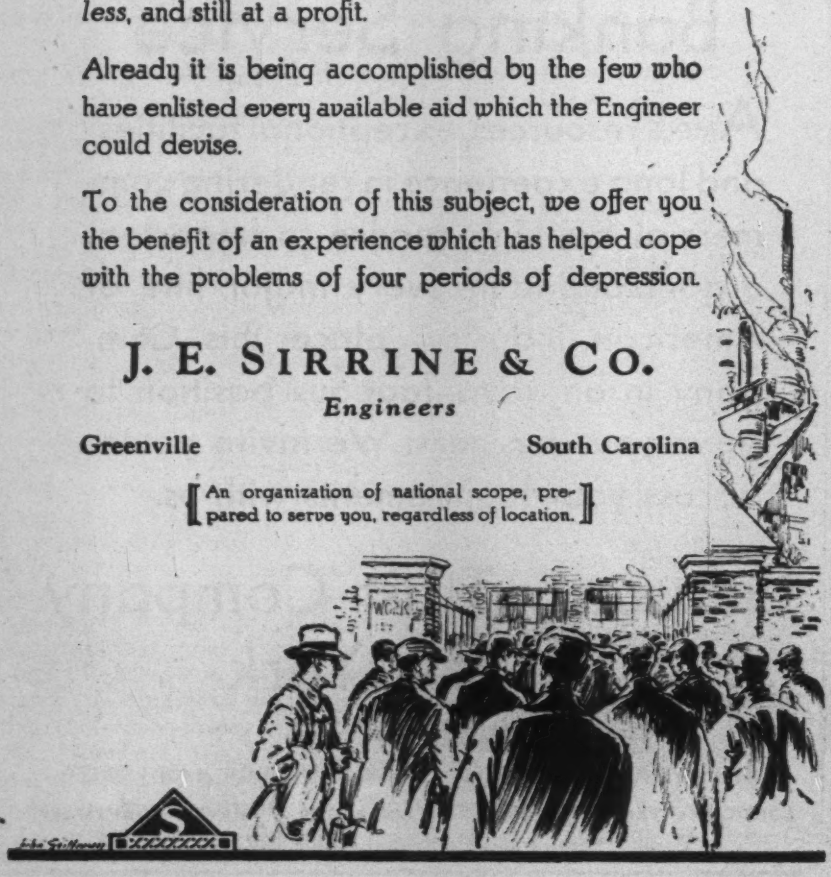


unhesitatingly into government loans. It was small investors, for the most part, who oversubscribed by $65 millions the Dominion's $150 million 5% issue of November, oversubscribed by $55 millions the Ontario $25 million issue, and by $35 millions the Montreal 6's, both in January.

In 1933, Canadian obligations, public and corporate, payable in New York total $187 millions, in 1934 $182 millions, in 1935 $197 millions.

Again Transamerica Means What Giannini Means

A. P. GIANNINI, self-made financier and leading exponent of branch banking, came out of the West this week with more than enough proxies in his pocket to regain control of the financial enterprises he built. A few short minutes at Wilmington, Del., and he emerged again at the head of Transamerica, the holding company which has control of his far-flung structure.

That is, it controls what is left of the structure after 2 years of domination by depression and a Wall Street group headed by Elisha Walker, formerly of Blair & Co. For it is now minus the New York Bank of America, sold to National City Bank, and some other smaller units.

Doubly Significant

The change has 2 kinds of significance. First, it restores to a high place in finance an ardent advocate of branch banking who will be a powerful recruit to the forces fighting for wider branch banking operation under the leadership of Comptroller of the Currency John W. Pole.

Secondly, it is likely to end the passive rôle which Transamerica assumed under Mr. Walker. The policy, announced last fall, was for Transamerica to become purely a holding company without operating control over institutions in which it held stock. If Giannini follows his previous policies a new period of centralization and expansion will occur when he deems conditions favorable.

The immediate effects of the change were very slight except on Transamerica stock, which went up. Chief interest was centered on the huge Bank of America of California, parent of the whole structure. A. J. Mount, president of the bank, and other high officers resigned at once. The fate of Lynn Talley, who left the Federal Reserve Bank of Dallas to become chairman last fall, is not yet known.

With Foreign Markets Fading, U. S. Watches Russian Prospect

Second 5-year plan creates new demand, but Soviet trade must work both ways

AMERICAN business has been looking at Russia from a new angle in recent weeks.

Within 6 months, all but 7 countries in Europe (excluding Russia) have put into effect important currency or exchange regulations which are acting as a barrier, in some cases almost an embargo, on imports.

Outstanding among the countries which have not abandoned gold or in some other way restricted the flow of exchange are France, Holland, Belgium, and Switzerland, but in every case these countries have radically increased their tariffs, have set up a system of import quotas, or established outright embargoes on imports. There is no important market in Europe which has not resorted to one or more of these measures.

The result is that American exporters are forced to cast about for new markets until bargaining agreements can be made, or an international tariff conference settles the whole impossible situation by a general reduction of tariffs.

Russia, seldom included in comparative European figures since 1918, is the exception to these new rulings. Many products are required for the Five-Year Plan, and its successor.

The Soviet market, however, is restricted by one factor: Moscow must sell abroad in order to build up the foreign exchange with which to buy.

Orders Look Good Now

Americans who have shared in the half-billion dollar Soviet-American trade in the last 6 years are watching current trends closely. Those who spurned dealings with the Soviets when other European markets were open are now open to conviction. Popularly considered the greatest foreign credit risk, the Soviets, it is admitted, have never defaulted on a payment to any foreign creditor.

Here is decision material for American manufacturers:

Soviet Foreign Trade: Year-end figures for 1931 are not yet available. For 9 months, imports exceeded exports by $42½ millions. Most reliable estimates from Moscow indicate that, for the entire year, the unfavorable balance will exceed $75 millions, to which probably another $50 millions can be added for freighting in foreign vessels, other miscellaneous charges.

Soviet Purchases Abroad: The trend is downward, is governed by contracting volume of sales of Soviet products on foreign markets. Germany won the bulk of last year's orders—$221 millions. The United States was second, but with only $51 millions of Russian orders, less than half the total in 1930. Britain was the third source of supply. Poland and Czechoslovakia significantly increased their sales to Russia during 1931.

Soviet Credit Maturities: In Germany, the bulk of the $221 millions of orders were placed between April and October under a special trade agreement. Maturities are listed by *The Business Week's* Berlin correspondent. By quarters in 1932, in millions—$11, $17, $18, and $24; in 1933—$26, $19, $40, and $39; in 1934—$19, $6, $12, and $5.

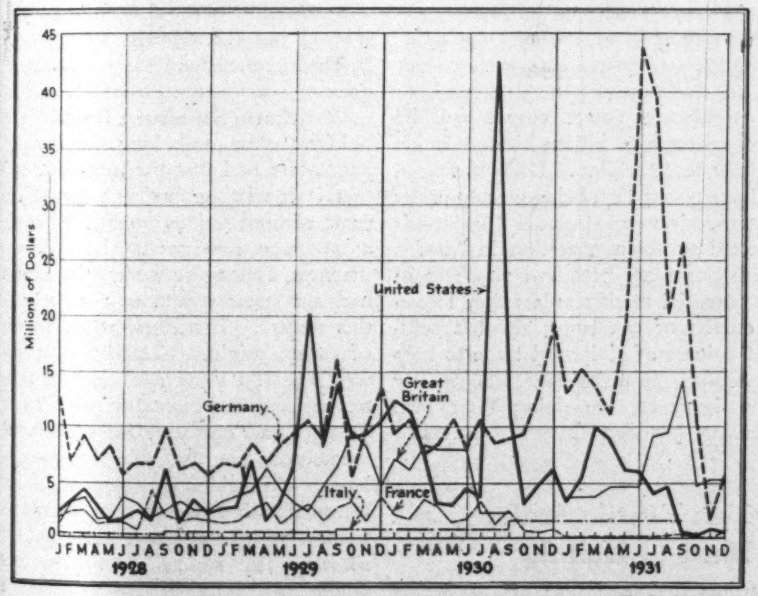
In England, the volume of orders increased during the fall when more favorable credit terms were offered and Britain (largest market for Russian goods) threatened to curtail imports unless the grossly unfavorable trade balance was corrected. Maturities by quarters are not disclosed, but *The Business Week's* London correspondent estimates that for 1932 they do not exceed $30 millions.

Long Term Credits

Italy has offered the longest credits—up to 54 months on certain orders—but volume is comparatively small.

Soviet credits maturing in the United States in 1932 do not exceed $25 millions.

Moscow is making no special effort to court American business just now. Threats of embargoes on Soviet imports, only short-term credits and these in dwindling volume, and general credit stringency have killed Moscow's long-fostered hopes of expanding business in this country. Every year since the Soviets started purchasing for their Five-Year Plan, the balance of trade with the United States has been unfavorable;



The Business Week

WHERE RUSSIA BUYS—*Germany and the U. S. got biggest share. U. S. peak in 1930 was due to heavy purchases of farm machinery to speed the agricultural program. German peak in 1931 was due to heavy machine equipment orders under special contract granting longer credits, averaging 24 months. France turned openly hostile in 1930, lost most of her Soviet business until fresh trade negotiations were opened late in 1931. Italy deals largely on a government-controlled basis, releases only yearly totals. Britain has fits of dealing with Moscow, kept no records for the last quarter of 1930. As sales contracted in 1931, orders were curtailed*

payments have been met by means of a transfer of credits from such countries as Great Britain, where Russia has had a highly favorable balance of trade.

Germany's Effort

With sterling exchange depreciated about 30%, and with Britain demanding a larger volume of Russian orders if she continues her heavy purchases of raw products from the Soviets, this principal source of surplus credit will dwindle. Holland and France are the 2 gold standard countries with which Moscow still maintains a fairly large favorable trade balance.

Soviet trade trends in Europe are likely to shift in the tariff scramble of the next few months. There are already indications. Germany, eager to hold as much of the Soviet business as she can, has informally agreed to expand purchases through Moscow. This amounts to "payment in kind," insures a steady flow of needed raw materials into Germany to meet manufacturing needs, and acts as a sort of guarantee on outstanding Russian credit.

France, after mulling over a trade treaty for some time last summer, has ended her attack on Moscow in order to maintain at least the small volume of Russian business that has been contracted through Paris. No broad trade agreement has been reached, however, which will encourage Moscow orders in return for long-term credit.

Britain, after an expansion of credit to Russia last fall, is coming under the dominance of the Baldwin group in the Nationalist government, shows less eagerness to deal with the Soviets. In large part, this is due to the heavy unfavorable balance of Soviet-British trade, the very thing the Nationalist government is pledged to end if Britain is to recover.

Italy Needs Soviet Products

Because of Italy's need for coal, oil, and wheat, products the Soviets are prepared to market on a large scale, Soviet-Italian business is expanding. Rome still buys more than she sells to Moscow, but the canny Italians are watching out that a fair volume of Russian business comes their way, are seeking it through trade missions to Moscow and by means of technical experts in Russia

Poland and Czechoslovakia, though satellites of France, are showing none of the French reticence in their dealings with Moscow. Both countries have sought to market steel in Russia with fair success. In 1929, Warsaw captured $9.1 millions of Soviet business, increased it to $14½ millions in 1930. The general slump in business in 1931 pulled the volume of orders placed in Warsaw down to $9.7 millions.

Czechoslovakia has fared especially well. Sales to the Soviets totaled $8.3 millions in 1928, $6.7 millions in 1929, $11.9 millions in 1930, and jumped to $17.8 millions in 1931, due to unusually heavy iron and steel orders.

Despite the depression, Moscow officials are aiming to complete the Five-Year Plan in 1932, nearly a year ahead of schedule. Details, however, have been altered in several cases to meet the difficulties which have risen. For executives watching the market there are several factors which indicate where Moscow's "buying interests" will focus this year.

Needs of the Plans

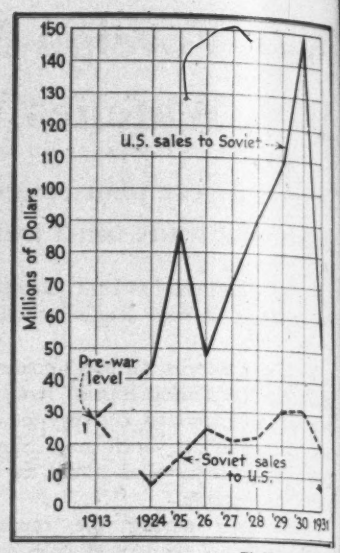
(1) Particular emphasis is being placed upon solving the transport problem; 1,300 locomotives and 50,000 freight cars must be constructed. All rail equipment must be improved to eliminate the possibility of a breakdown which might obstruct the whole Plan.

(2) Production must be speeded, particularly in the coal and metal industries. Coal production is scheduled to reach 90 million tons in 1932, in contrast to 58½ million in 1931, and 75 million in the original Plan.

(3) Capital to be invested in industry in 1932 totals $5,350 millions, compared with $4,100 millions in 1931. To be invested in railways, water, land, and air transport, $1,700 millions.

(4) Electric power output will be increased from 10 billion kilowatt hours last year to 17 billion. Dnieprostroy—the huge power dam being erected under the supervision of Colonel Cooper—is expected to begin operation in May.

Americans are promised no share in this potential market unless they loosen up credits or can bring about a sufficient volume of reciprocal trade to help the Soviets meet the bills. Some few firms, however, are doing their own dickering, handling fair sized orders.



The Business Week

OUR RUSSIAN TRADE—*Before the war, buying and selling were almost equal. Since 1924, the spread between what we sell and what we buy has increased. Russia was 17th on our customer list in 1929, 8th in 1930. Even in '31 the Soviets took 2% of our exports*

British Textile Strike Is Hard to Handle

EUROPEAN NEWS BUREAU—Nearly 6,000 textile workers in the Burnley area, hub of Britain's great textile manufacturing region, have gone on strike. Negotiations over several months have failed to bring any accord with owners on the questions of longer hours and lower wages, and the operating of a larger number of looms by each worker. Either, or both, would aid British producers in meeting world competition on a more equal footing as far as production costs are concerned.

So far the strike at Burnley has not spread, but London is apprehensive. Britishers understand the psychology of these workers in the Lancashire area.

Same Stubborn Breed

Many close and long observers of Lancashire feel that the more-loom system is inevitable, but that it will not come without serious trouble. Although a stoppage now would be industrial madness, Lancashire workers have never had any great reputation for sanity in this respect. Lancashire was the home of the original Luddite machine-wreckers 100 years ago, and the same temperment and mentality prevails still. Owners and operatives, it must be remembered, are the same breed—stubborn, old-fashioned, suspicious, but leavened with a kind of communal good-humor which makes a stoppage less sociologically serious there than elsewhere, however desperately it affects the economic life.

It is significant that Lancashire idiom does not include the phrase "being on strike." They call it "playing." Many times during the general strike of 1926, workers on strike occupied themselves by organizing football matches with the police drafted by frightened authorities in London to look after them.

Business Abroad—Swift Survey Of the Week's Developments

Encouraging factors in the world business outlook: Generally favorable reaction to Washington's "mild inflation" program, strength on European securities markets, more regular commodity prices, greater optimism in Britain, Anglo-French agreement to consider reparations at Lausanne in June, probability of wider sugar restriction. . . . Unfavorable factors: General rise in unemployment, adverse trade balances in January, critical financial situation in Germany and Central Europe, dangerous developments at Shanghai. . . . Business abroad reflects in a lesser degree the recent new hopefulness in the U. S. . . . Most serious immediate problem is the throttling of trade by rapidly multiplying national barriers.

Europe

EUROPEAN NEWS BUREAU (*Radio*)—Commodities this week have irregularly recovered a part of their recent losses. Cotton and wheat showed a net gain. Securities, likewise, have risen, notably in France. Money remains easy but credit has not relaxed. The transient weakness of the dollar on renewed fears of inflation in the United States, and the improvement in sterling on better trade and budgetary positions, have been features on the exchanges.

Three developments have stiffened sentiment. The announcement of the Anglo-French agreement to hold the long-postponed Lausanne conference on reparations and war debts next June is hopefully received notwithstanding the fact that the accord so far covers only the date and place of the conference. The financial questions to be covered are still in suspense.

Final submission of the British tariff bill brought a pleasant surprise in that the free list proved to be more extensive than was expected.

Lastly, though "inflation" was Europe's first reaction to the Glass Bill in the United States, secondary reaction is increasingly more favorable. After her own postwar experience with the evaporation of real assets into worthless paper values, Europe is gun-shy of economic tonics. But the more favorable secondary reaction is now becoming even optimistic. Not a few Europeans are of the belief that the plan bids fair to thaw frozen finance and halt pernicious deflation outside the United States.

Net European reaction to the week's developments: Commodities have strengthened less than securities; European stock exchanges rallied less than Wall Street. The Far-Eastern situation has had no immediate influence.

Trade Paralysis in Europe

Attention must again be called to the consequences of the trade paralysis creeping over Europe as a result of the *chevaux-de-frise* of defensive restrictions with which literally every country is surrounding itself. England is less affected than most of the others, but the first trade returns for January have fully confirmed forecasts in these cables that heavy declines in both imports to, and exports from, the Continent were inevitable. February may be expected to show still greater losses.

The most serious decline was in Germany where the sensational 23% drop in exports reduced the favorable trade balance to $25 millions, or less than half the December balance which already was below previous months. The new balance is barely adequate to cover current debt payments. When the Reichsbank's inability hitherto to collect more than one-quarter of the export proceeds (over and above imports) is recalled, it seems inevitable that this means an actual deficit, notwithstanding the fresh "standstill" on short-term obligations. This trend is reflected in the uninterrupted loss of unpledged gold and exchange reserves of the Reichsbank which now have fallen to a bare $170 millions.

German Moratorium Likely

The Business Week hazarded the prophecy (*BW—Feb10'32*) that, unless trade conditions improve, and quickly, Germany (and other European countries) will be forced into a general transfer moratorium within 90 days, if not sooner. On Feb. 15 *The Business Week's* Berlin correspondent reported: "Last week I sat in on a luncheon with about 30 industrialists and officials of various economic ministries. That a moratorium is pending is considered by them a matter of course. Practically every thinking person has this same view."

Incredible though it seems, the rest of Europe appears wholly unconscious of the imminence of such a momentous development which, in Germany, now is regarded as a foregone conclusion. If and when a general German moratorium comes it will mean suspension of the servicing of the Dawes and Young loans and all other foreign obligations totaling some $4 billions, in addition to obligations on which servicing already is suspended.

So far as Europe is concerned, it has become a race against time whether measures to counteract economic disintegration can be formulated, agreed upon, instituted, and effective before the cancer of trade restrictions leads, not only in Germany but throughout Europe, to outright financial paralysis.

So far as Germany is concerned, there remains hope that uncollected proceeds from record exports during most of last year can still be mobilized to postpone the consequences of moribund trade till, and if, conditions are better. But the earliest hope for material change in conditions rests on the reparations conference in June, unless some common ground for agreement can somehow be reached sooner, or some wholly unforeseeable development occurs.

Basis for Settlement

The London *Daily-Herald* claims that the basis for the reparations conference should be the abandonment of conditional payments and the resumption of unconditionals at reduced rates. They should be guaranteed by the German railways. These moves, however, should be preceded by a moratorium during which an effort should be made to come to an agreement with the United States to settle war debts on a similar reduced scale. The prosperity index is the governing incidence on which reparations can be restored. This London report is unofficial, but the logic of circumstances bespeaks some such scale-down settlement.

The fall of the French government came at an awkward moment but is not yet taken as a serious occurrence. Hindenburg's acceptance of the German Presidential nomination without sacrificing Bruening has cleared the political situation in Germany and placed the Hitlerites distinctly on the defensive.

American, British, Swiss, and Dutch bankers, but not French, have ratified the new "standstill" on German commercial debts. French hesitance is immaterial since their participation amounts to only 5%.

Last week's reported agreement for the automatic monthly renewal of the $100-million Reichsbank credit as long as conditions in Germany remain funda-

Central News

SWEDEN ELECTRIFIES—*Workers wiring the 375-mile stretch of the Stockholm-Malmo railroad. The government is taking advantage of current low material prices and plentiful labor, is pushing the project*

mentally unchanged, is still denied. There seems to be no agreement beyond Mar. 4. There is talk that Holland and Switzerland may take over the $25-million French share.

Germany

German crisis looms as trade balance turns drastically unfavorable, preventing sufficient export surplus to meet foreign financial obligations.... New import restrictions likely.... Shipping lines in difficulties.... Unemployment expected to increase radically as orders fall.

BERLIN (*Cable*)—The renomination of Hindenburg for the presidency with the probability of reelection is an important factor in Germany's internal political stability and the maintenance of foreign confidence in the German situation. At the same time it is a heavy blow to Hitler who is now forced to meet Hindenburg in an open fight, with certainty of defeat.

The week's outstanding event, repeatedly forecast in *The Business Week*, is the striking deterioration in the trade balance. January exports dropped 23%, while the export surplus declined from $59 millions in December to $24 millions in January, with losses heaviest in sales to England and Scandinavia.

This adverse trade development implies that there will soon be a further strained foreign exchange situation, and stresses the immediate necessity of tightening of the existing, but ineffective, regulations. The government has endeavored to plug leakages still existing by (1) stricter control of the amounts due from exports and of the Reichsbank by forcing it to discontinue sales of foreign exchange against marks held in Germany on foreign account, and by (2) demanding guarantees from importers that merchandise for which foreign exchange is allocated be actually imported within one month and not held or resold abroad as a means of capital flight.

Fewer Imports

The unfavorable development of the trade balance also augurs attempts at further curbing of imports either by tariffs or stricter handling of exchange purchase permits.

The money market is easy with strong demand for commercial bills permitting the Reichsbank to unload on the market 20% of its portfolio since the yearend.

The more favorable tone of the money and stock market is largely offset by dismal news of shipping difficulties threatening to undermine the most important pillar of German economic strength (page 24). The announcement of heavy losses by A. E. G. and Stahlverein complete the gloomy picture.

Great Britain

Britain still optimistic.... Foreign trade returns are less unfavorable.... Anglo-French agreement to thrash out reparations at Lausanne in June is a hopeful sign.... Tariffs have been favorably received.... Outlook encouraging.

LONDON (*Radio*)—Many factors are operating to increase returning confidence. Chief among them is the Anglo-French reparations conference agreement, the prospect of lower taxation, better trade returns, and favorable reconstruction developments in the United States. Stock markets opened the week with spectacular gains but so far the reaction only has caused profit taking and bear covering.

The new Lausanne agreement is construed in Britain as assurance that France is prepared now to renew the Reichsbank credit and maintain the "standstill" agreement in order to avert the danger of fresh moratoria, and that she is also ready to attempt to achieve a united Europe for insistence that war debts be scaled down with reparations. Britain's declared policy is for cancellation, but with readiness to concede to France the moral right of reparations provided it is not exercised.

Britain's Free List

The tariff bill progress has been greeted with general approval but there is criticism of inclusion in the free list of certain commodities; for example, hemp and woodpulp. Empire hemp producers are anxious to secure the Canadian market at the Ottawa parley next summer. Extreme protectionists are dissatisfied with the low level and narrow gauge of duties, and are waiting anxiously for the constitution of the personnel of the tariff committee, realizing the unusual powers this body will hold and hoping that it will be dominated on the whole by hoggers, thus assuring rapid extension of protection policies. But free traders are countering with active opposition in Parliament and throughout the country. The real effects of the new tariffs are thus suspended till the personnel of the tariff

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Today, 76,553 business men have made the same discovery and have entered their subscriptions. How many more thousands read it regularly is worth conjecture even if it can't be expressed in figures.

The point is that this succession of "discoveries" has created a market and a medium, both of which are available to anyone with something to sell to business and business men. Multiply your own imagination, authorities, and activities by 76,553 and you have a fair idea of the sales-creating power of The Business Week.

Does that mean anything to *your* business?

commission is known and actual bargains are made at Ottawa.

Supplementing the original "free list" announced with the original tariff (*BW—Feb17'32*), and which included such important raw materials as raw cotton, raw wool, tea, and British-caught fish, a more inclusive list has finally been released. Though few items included are important among the imports from the U. S., American business eagerly noted them, jotted down the following: meats (except essences, extracts, and tinned meat); livestock; cottonseed; linseed; hides; undressed flax and hemp; newspapers, periodicals, printed books and music; newsprint, woodpulp; crude rubber; scrap iron and scrap steel; sulphur; iron ore. A drawback of the duty will be allowed on goods imported for shipbuilding, repairing, and refitting, duty-free admission being granted to those materials when consigned to registered shipyards.

British Tariffs Work

January trade reflects a contraction of imports due to the abnormal duties, of £15 millions below December figures, and £9½ millions below the monthly average for last year. Exports were £1 million below December totals. This is quoted by government supporters as assurance that the National government's protective policy will redress the trade balance, but wise traders, shrewdly watching tariff trends on the Continent, declare this slowing down of the export decline is no safe guide to future trade until its effects can be rounded out on both imports and exports.

No settlement of the textile strike (page 30) is imminent, though there is a tendency among some of the workers to return, among many to consider more favorably demands of employers for adoption of the "more-looms" system.

France

Industrial activity is declining rapidly; unemployment is mounting.... Most cheerful factor this week is the rally on the Bourse.... Bank of France continues to repatriate gold .... Trade restrictions threaten increasing import list.

PARIS (*Radio*)—The Paris Bourse has continued its remarkable rally in the face of the further steady deterioration of domestic business conditions.

Unemployment is rising relentlessly. Compared with less than 100,000 at this time last year, the total now is 1½ millions wholly unemployed, and 1¾ millions if the part-time workers are included. The increase measures a corresponding decline in industrial activity which now nowhere exceeds 75% of capacity and ranges down in some industries to only 24 hours weekly.

Agricultural conditions, on the other hand, thanks to high agricultural protectionism and to financial conditions which the cautiousness of French bankers and the high degree of liquidity of the majority of banks have made possible, are relatively satisfactory.

French Bourse Strong

The strength of the Bourse is only explainable as reflecting a recovery of public confidence in the domestic financial structure following the wave of uneasiness which was occasioned by the difficulties in certain banking institutions last fall, coupled with the inevitable pressure from a plethora of idle capital and with favorable technical conditions, and to the stimulus of the week's international developments. It is difficult to foresee a continuance of the buoyancy, however, in the face of the recent rapid domestic industrial decay.

The Bank of France has continued its liquidation and repatriation of foreign assets, and has raised the minting fee in order to check a further inflow of free gold by thus lowering import gold points. Repatriation of foreign balances is at present counteracting the deterioration of the French balance of payments but once the operation is completed a reflux of gold shipments is expected.

Balk Standstill Agreement

A $20-million French loan to the Rumanian state monopolies is rumored, but any Greek loan is definitely denied. French bankers have postponed ratification of the new "standstill" agreement on the pretext that the final agreement dropped several clauses contained in the original draft which the French had approved. It is claimed these omissions subjected acceptance and open credits to virtually the same conditions of repayment instead of differentiating between them.

January trade shows a 60% reduction in the adverse trade balance since last June, was made possible by a 40% reduction in imports compared with only a 28% cut in exports. The reduction in imports reflects the extent to which the trade restrictions that France has imposed, and still is steadily expanding, already have taken effect. But the 14% drop in French exports between December and January instances the repercussion of similar restrictions taken throughout Europe.

Among pending new trade restrictions proposed are quotas on shoes, tractors, patent leather, machine tools, tooling pencils, and a 100% increase in the duty on dried prunes, whereof the United States supplies 96% of all imports. American trade representatives are active in trying to obtain an equitable proportion in the quotas for American exports.

There is one encouraging factor to foreign farmers. The percentage of foreign wheat admissible for milling into domestic flour has been raised by 3 successive increases to 20%. Operators forecast a further increase to 40% or even 50% will soon be necessary because domestic supplies are approaching exhaustion.

Far East

Outlook threatening.... Japanese campaign fails to hide growing domestic weakness.... Shanghai business paralyzed.... Immediate and long-term prospects very gloomy.

CONDITIONS in the Far East—both political and economic—are less favorable this week.

At Shanghai, the threat of a concerted large-scale attack by the Japanese has called forth the most threatening note the League has issued, pushed to the foreground the probability of a diplomatic incident since Tokyo insists on using the International Settlement at Shanghai as a base.

A second disturbing factor is the situation in Japan. Elections are due Feb. 20 and it is expected a majority of the Seiyukai party will be returned to the Diet. In the meantime, however, rumors are spreading that the government is running into increasing difficulty in keeping widespread unrest under control.

Adverse Development in Japan

Tokyo, under the cover of a bold front and comparative success in Manchuria, has fairly successfully hidden an increasingly unfavorable domestic economic situation. This week there are 3 new developments which indicate how serious this situation has become.

Foreign trade figures for January reveal an unfavorable balance of $23 millions. Exports were $16 millions below January, 1931, and imports were up $6 millions. The Chinese boycott was the major factor in the export decline.

Already running a heavy deficit, the national treasury has had to appropriate another $15 millions for the Shanghai

military campaign. Two conversion issues totaling well over $15 millions are expected but since there is small chance for absorption domestically, they are likely to be taken by the Bank of Japan.

With 60% of the country's ships laid up, shipowners have appealed to the government for a fresh subsidy of about $7 millions.

Business in Shanghai, until this month the most active in China, is paralyzed. Damage to 100 or more factories in the Chinese area is estimated at $75 millions. Thousands of Chinese have been thrown out of work. The cost of living is skyrocketing.

The outlook is very gloomy. Emergency imports of raw materials and reports of small munitions orders to Europe and America are small grounds for optimism in the face of the dismal underlying economic factors.

Latin America

No change in business. . . . Ecuador has suspended gold payments. . . . Cuba's sugar plans await word from Java, are likely to include further restrictions.

THERE were no major economic developments in Latin America this week to alter the general unfavorable tone. Carnival activities and summer heat restricted Argentine business. Coffee exports from Brazil have been light and have consisted largely of consignments.

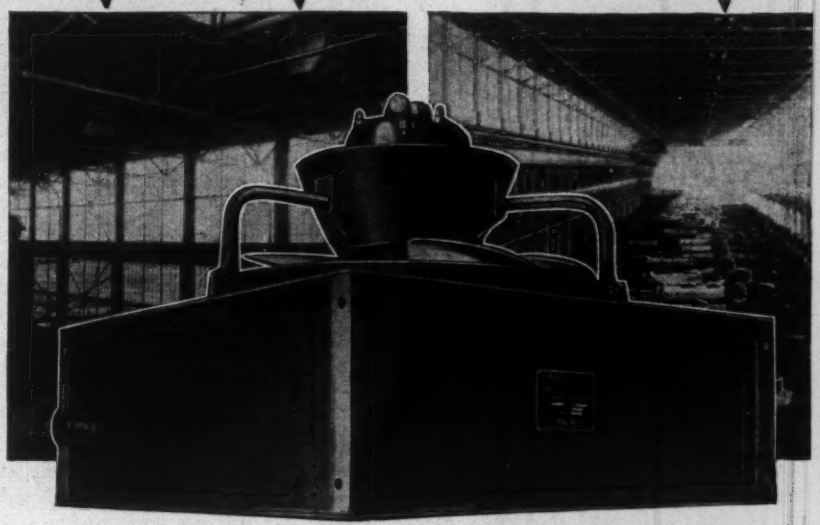
Ecuador has suspended the gold standard until Nov. 10, and the government has ordered the Central Bank to convert into gold all its deposits in foreign banks in order to bring gold into its own vaults as soon as possible.

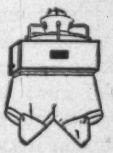
Mexican exchange skidded this week. The decline is attributed to (1) the floating of another large issue of paper pesos and to (2) general business uncertainty.

Colombia, it was explained last week, was suffering from lower coffee export prices due to flooding the market in one season. This week the Colombian Cable & Air Mail Weekly Service reports that the National Coffee Federation has announced that 8 warehouses for storing coffee are under construction, that bankers will be asked to help finance the coffee to market.

Cuba is withholding 1932 sugar planting plans pending word from Java where it is expected new restriction concessions will be made to meet Cuban demands (page 25).

"FLOODLIGHTS" OF HEAT





Illustrated above is Type H C Heater. Various discharge outlets can be used with this heater. Herewith is shown design No. 8, as well as in photos above.

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The Figures of the Week And What They Mean

Absence of any immediate stimulus to increased business volume in the major lines of trade and production has forced our index of general business activity into new low ground. . . . The outlook for steel hinges on the motor manufacturers, who in turn are waiting to see the public's reception of the announced Ford models. . . . Coal production and shipments were the outstanding gains of the week. . . . Building contracts are slow in appearing, with February bidding fair to undercut January. . . . Commercial loans, electric power, and carloadings are still declining. . . . Commodity prices have followed the stock markets and begin to show some improvements.

THE lack of any pronounced improvement in steel buying again caused a slight curtailment in the operating rate of the steel ingot industry. The adjusted index declined to 35% of normal production. The usual trend is strongly upward at this time of the year.

The gain in the steel operating rate during January was largely due to automobile orders, and the failure of the industry to continue to step up operations was also due to a resumption of cautiousness on the part of the motor manufacturers. The renewal of the wait-and-see attitude can be attributed to the failure of general business improvement and also to the uncertainty of Mr. Ford's plans. Now that Ford has made an official pronouncement concerning his new 4 and 8 cylinder car, the air has been partially cleared. As yet the steel industry has felt no great pressure for steel for the new Ford models, though production was announced to commence this month. Other car makers have expressed satisfaction with the Ford announcement and some have announced increases in their own production schedules. It is difficult to see how any substantial increases in output will take place before more is known about the public reception of the Ford models and at what price they are to be offered.

The price situation is being further complicated at the moment by another price stabilization movement on the part of manufacturers of sheets and strip steel. Whether these prices will be able to withstand the substantial volume of business which Ford can offer is yet to be seen. Mr. Ford made a fairly definite threat against increased price attempts by the suppliers of raw material, warning them that the whole effort of manufacturers to start the wheels of industry may be throttled by such attempts. At any rate the entire motor industry will be interested in the struggle. In the present buyers' market, the odds are heavily against the sellers.

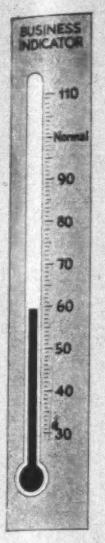
Automobile Production

Automobile production in the United States and Canada during January is estimated at 126,518 units, a 2% increase over the December output of 123,965. The small increase reflects the absence of one of the major manufacturers. February prospects are less bright, since low-price producers will be inclined to be cautious.

The heavy dependence of the steel in-

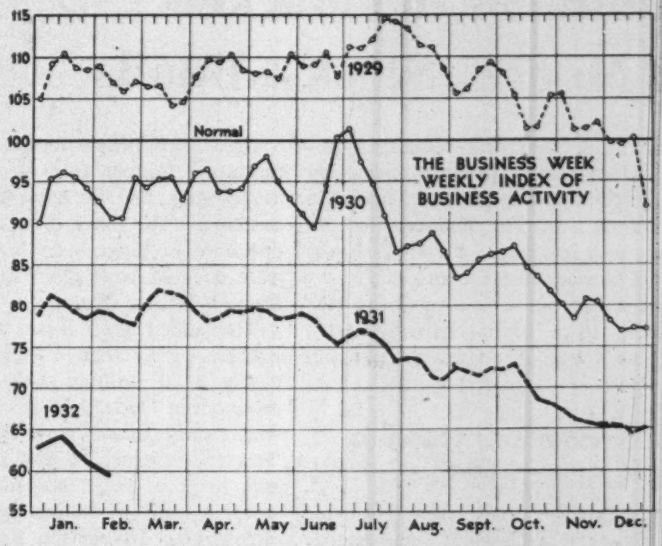
THE BUSINESS WEEK WEEKLY INDEX OF BUSINESS ACTIVITY	Latest Week	Preceding Week	Year Ago	Five-Year Average (1927-1931)
	*59.6	†60.4	79.1	.....
PRODUCTION				
Steel Ingot Operation (% of capacity)	26	27	50	77
Building Contracts (F. W. Dodge, daily average in thousands, 4 weeks basis)	$3,418	$3,977	$8,744	$13,908
Bituminous Coal (daily average, 1,000 tons)	*1,206	†1,069	1,306	1,818
Electric Power (millions K.W.H.)	1,579	1,589	1,684	1,633
TRADE				
Total Carloadings (daily average, 1,000 cars)	96	94	120	148
Miscellaneous and L.C.L. Carloadings (daily average, 1,000 cars)	61	62	77	91
Check Payments (outside N. Y. City, millions)	$2,950	$3,558	$3,944	$4,863
Money in Circulation (daily average, millions)	$5,642	$5,645	$4,605	$4,680
PRICES (*Average for the Week*)				
Wheat (No. 2, hard winter, Kansas City, bu.)	$.52	$.54	$.69	$1.13
Cotton (middling, New York, lb.)	$.069	$.067	$.110	$.159
Iron and Steel (STEEL composite, ton)	$29.57	$29.60	$31.61	$35.09
Copper (electrolytic, f.o.b. refinery, lb.)	$.059	$.059	$.098	$.144
All Commodities (Fisher's Index, 1926=100)	63.6	64.2	76.3	91.7
FINANCE				
Total Federal Reserve Credit Outstanding (daily average, millions)	$1,803	$1,822	$945	$1,192
Total Loans and Investments, Federal Reserve reporting member banks (millions)	$19,785	$19,979	$22,659	$21,573
Commercial Loans, Federal Reserve reporting member banks (millions)	$7,212	$7,256	$8,286	$8,620
Security Loans, Federal Reserve reporting member banks (millions)	$5,504	$5,574	$7,319	$6,982
Brokers' Loans, N. Y. Federal Reserve reporting member banks (millions)	$499	$486	$1,772	$3,438
Stock Prices (average 100 stocks, Herald-Tribune)	$92.69	†$89.62	$140.24	$152.98
Bond Prices (Dow, Jones, average 40 bonds)	$78.76	$78.61	$96.25	$96.25
Interest Rates—Call Loans (daily average, renewal)	2.5%	2.5%	1.5%	4.2%
Interest Rates—Prime Commercial Paper (4-6 months)	3½-4%	3½-4%	2½-2¾%	4.2%
Business Failures (Dun, number)	693	780	534	536

*Preliminary †Revised



The Index

The weekly index of general business activity, first of its kind, is compiled by *The Business Week* from 8 series of weekly figures —steel mill operations, building contracts, bituminous coal production, electric power output, non-bulk carloadings, check payments outside New York, commercial loans of reporting Federal Reserve member banks, and currency in circulation. It shows the current level of the average daily physical volume of business as compared with the normal for the season and the year. Normal, represented by 100, is what the current volume of general business activity should be if the usual seasonal changes and year-to-year growth had occurred. For further explanation see *The Business Week*, May 7, 1930, p. 39.



dustry on the plans of the motor industry in the absence of demand from other sources augurs poorly for the steel industry. At the moment it appears that the industry will do well to hold the January gains. The railroads will have to await heavier freight shipments before they can place orders for rails or equipment; the lettings of structural steel are at a low ebb with even federal projects lagging; and the farm implement industry has sharply curtailed its orders. Tin plate specifications are coming along slowly, with the price situation disturbed by reports of price concessions and some invasion of Welsh tin plate selling at $1.75 under the official domestic price. Unfilled orders of the U. S. Steel Corp. at the close of January declined 87,203 tons to 2,648,150, the lowest for any month since the close of 1910.

Building Contracts

Data on building contracts awarded during the first half of February are not yet available except for a few districts. On the basis of reports for these territories which accounted for about 63% of the total volume for the 37 states in 1931, the continuation of the January shrinkage in construction can fairly safely be predicted. Compared with a year ago, these districts show a 70% decline.

A sudden spurt in bituminous and anthracite coal production during the week of Feb. 6 was contrary to the usual seasonal trend. Reports that industrial consumption has shown some improvement will require more than one week for confirmation. Our adjusted index rose to 55% of normal compared with 48% the preceding week. Not since Dec. 19 has bituminous coal production exceeded the 7 million tons a week mark.

The decline in electric power production during the week of Feb. 13 partly reflects the effect of some holiday shutdowns. Our adjusted index declined to 76% of normal compared with 77% the 4 preceding weeks.

The increase in carloadings was due solely to a sharp gain in coal shipments, following the rise in production, and also in coke shipments. The decline in miscellaneous freight and merchandise less than carlot continues the steady decline since the mid-January peak. The trend is distinctly contrary to the usual spring rise, but seems in line with the 19% decline in department store sales for January compared with a year ago. Our adjusted index of carloadings declined to 60% of normal.

The 17% decline in check payments for the week of Feb. 10 brought this series to the low of the present year. The adjusted index also moved to 68% of normal. The shrinkage in New York City amounted to 27%.

Currency Figures

The daily average volume of currency outstanding during the week of Feb. 13 declined very slightly, though considerable emphasis continues to be placed on any decline at all. Our adjusted index remains unchanged at 47% above normal.

According to the *American Banker*, bank closings during the second week of February totaled only 17. The Treasury reports that the volume of paper money outstanding of large denominations has increased more rapidly in the past year than money of smaller denominations.

Commercial loans are not expanding as is customary in February, but adjustment for declining prices has held our index 15% above normal for the week of Feb. 10.

Business failures are now showing some tendency to follow the usual trend of the period and are decreasing in number.

Commodity Prices

Commodity prices took their cue from the stock and bond markets in the past week, rising and falling in irregular order. Up to Feb. 13 and in some cases extending to Feb. 16, a number of major commodities reported gains which were partly lost in later trading. The composite index of wholesale prices of the U. S. Bureau of Labor covering the period to Feb. 6 indicated a general steadiness, with farm products prices showing a slight gain.

Wheat, corn, oats and rye prices have made marked gains in the past 10 days. Cotton prices continue to edge upward, with reports that exports to the Orient continue heavy.

Hides have gained following the termination of the long standing dispute between packers and tanners. Hogs and rubber continue weak. Cocoa, silk, sugar and coffee have shown improvements over a week ago.

The non-ferrous metal markets report increased activity following the Administration's recent moves. Copper prices rose and foreign demand increased. Zinc, tin and silver prices also gained slightly.

Trends of the Markets In Money, Stocks, Bonds

The money markets remained quiescent this week although monetary affairs dominated general financial discussion. . . . The Federal Reserve system was inactive. . . . Gold losses by the United States continued. . . . Stocks shot from their low of the year virtually to a high, then hesitated. . . . Bonds were stronger, but not uniformly so.

Money Market Watches Continued Gold Loss

ALTHOUGH the week was dominated by monetary discussions, the money markets, with one important exception, were featureless.

The United States continued to lose gold at a rapid rate, the total decline amounting to $34 millions. Most of the foreign exchanges moved against the dollar, the franc remaining well above the gold export point all through the week. Outgoing gold shipments for the week reached $62.8 millions of which $50 millions went to France. However, part of the gold shipments came from previously earmarked metal, which dropped $16.2 millions, and imports of $6.4 millions were received. Canada sent the major portion, but shipments also arrived from Uruguay, India, Brazil, Mexico and Latin America.

Gold withdrawals resulted from the continued foreign fear of inflation in this country, and the need of the money at home. The latter cause is especially operative in the case of France. Her total of gold rose again this week by about ½ billion francs.

The added gold losses reduced the American gold stock to $4,369 millions, nearly $100 millions below the total reported on Dec. 23. This loss of gold was mostly offset by a large rise in Treasury currency, a tiny rise in Federal Reserve credit and member bank reserves, and a decline in money in circulation. In net the Reserve banks did nothing; their holdings of acceptances dropped and borrowings from them rose, most of the rise being outside New York City. The belief that the system was engaging in open market operations was disappointed.

Currency circulation declined $17 millions from Feb. 10 to Feb. 17, apparently a slightly larger than seasonal decline for the week. The Reserve banks continued to withdraw gold from circulation and substitute Federal Reserve notes.

The deflation of bank credit resumed its drastic decline this week, after having been halted in the 2 preceding weeks. Total loans and investments for all reporting member banks of the Federal Reserve system were down for last week by $194 millions. Another drop in New York City bank figures for this week indicated a further decline. Brokers' loans rose $13 millions with the sharp jump in stock prices.

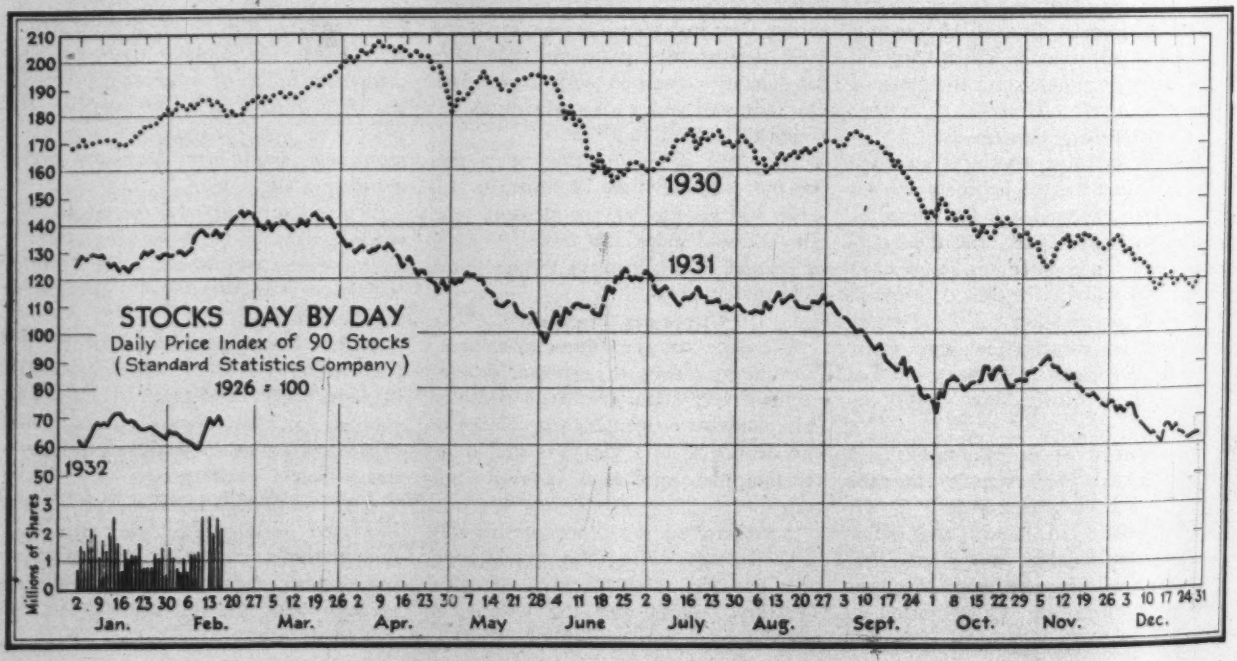
Reduction in the Bank of England rate from 6% to 5% this week followed by drops by Norway and Sweden led to speculation as to whether the Reserve Bank at New York would follow suit, but it failed to take action at its Thursday meeting. The British move apparently was made possible by Indian gold, the recent rise in her ratio, and her desire to relax credit. There is still considerable expectation that the Reserve Banks will cut their rates further in the near future.

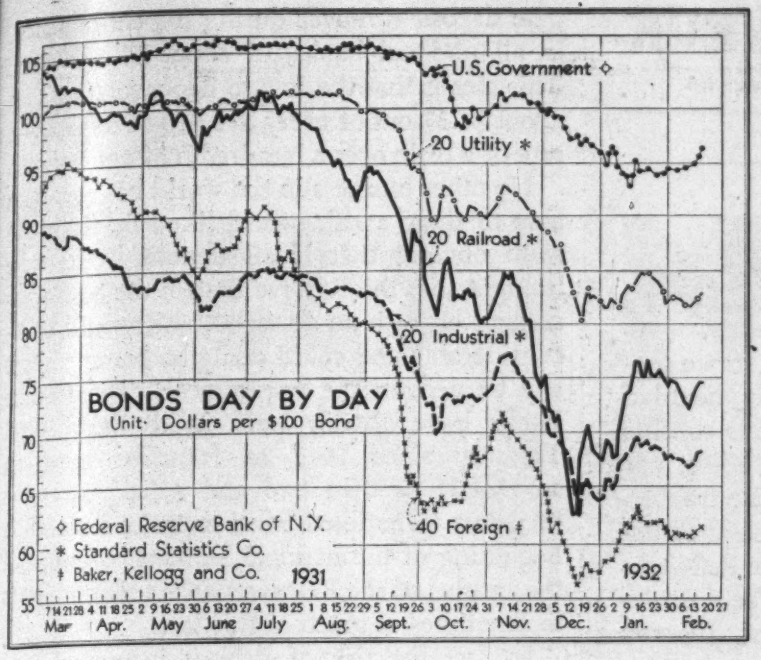
Wall St. Takes a Leap —And Then a Look

SPECULATION on the new Washington move to stimulate business dominated the stock market. Within 2 days of the Capital announcement, stock price averages had moved from their lows for the year virtually to the high and Wall Street was talking of little else.

After the 2 days of rapid rise the market hesitated and fluctuated within a narrow range, waiting more developments as the bill was worked through Congress. Skeptics—in degrees varying from complete unbelief to mild doubt—seemed to predominate in the days immediately following the rapid uprush.

Factors on the bull side of the market





supporting the strength generated by the new Washington move included President Hoover's announcement that hoarding is on the decrease, declaration of the regular A. T. & T. dividend (generally expected), short covering, strength in commodities, and a growing belief that the automobile industry will become a source of business strength in the near future.

The price of Stock Exchange seats rose rapidly, attesting the belief that there is better securities' business ahead. The short interest in the market at the beginning of the move was reported to be large and those close to the market dispute the amount of covering that has been done. Conservatives also were encouraged as the Senate defeated the measure to start a federal "dole."

A number of unfavorable factors were given considerable attention, and influenced the hesitancy in the market after the initial rise. These included the proposal of additional federal taxes, a number of dividend reductions, another heavy decline in bank credit, and the fact that business showed no appreciable signs of betterment.

Bonds Raise Some Prices and More Hopes

THE bond market's reaction to the financial maneuvers of the week was generally favorable but somewhat varied. Low-priced speculative issues were bid up, and bonds convertible into stock were popular. The railroad list was strongest among the industrial divisions. The stubbornness of the foreign group was probably attributable to the numerous provisions in Washington's measures barring foreign securities as collateral for loans.

Government Issues Stronger

Marked strength in government issues was of outstanding and was the result of, at least, 3 factors. First was the possibility of lower money rates. Second, the expectation in some quarters that the Reserve banks would soon enter the market as substantial buyers in pursuance of an open-market policy; in fact, the strength in these issues created considerable speculation as to whether the Reserve already was buying. Finally, defeat of the LaFollette–Costigan bill removed one of the threats of even larger new government issues than are already in prospect.

The municipal bond situation was little changed, though some analyzed it as worse. Certainly, the condition of many municipalities is—or is approaching—a point of desperation. But their prospects of selling bonds are practically nil.

The bond market is being watched very closely by analysts, who point out that, again and again, a strong bond market has proved to be the way out of depression. One important reason why this has been true is that improvements and construction, financed by bond sales, have furnished the stimulus needed by business.

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THE BUSINESS WEEK

The Journal of Business News and Interpretation

February 24, 1932

Sooner or Later

A BABY-BOND or savings stamp issue, as we suggested last week, might help bring hoarded money back to banks, in so far as this consists of small savings. But no such remedies, nor patriotic appeals, go to the root of the trouble.

Hoarding will cease only when losses to depositors through bank suspensions are definitely and completely stopped. There can be no compromise or qualification on this point. If some strong banks are to be supported and other weak ones not, the public will make no distinction between them. Unless the government is willing to say specifically what banks it will support—which it cannot do—there is no alternative but to give an unqualified guarantee to all depositors that their money is safe in any bank. If the Reconstruction Finance Corporation or the Reserve System under its new regulations cannot undertake this for all banks, Congress should immediately amend the Reserve Act to compel all banks of deposit to become members, and set up in the Reserve System a deposit insurance fund for the protection of depositors. This is a step without which confidence in our banking system cannot be completely restored and continuously maintained.

The most astonishing thing in this whole situation is that banking authorities seem unable to see how simple, safe, and inexpensive such insurance would be, and are persistently opposed to it. Can it be that they have never examined the amazing record of the results of liquidation of national banks suspended since the beginning of the system? The latest report of the Comptroller of the Currency shows that losses to depositors in all the national banks which failed from 1865 to Oct. 31, 1931, amounted to only $55 millions. This loss during a period of 66 years, in which the country experienced several depressions and panics of the greatest severity, compares with an aggregate deposit turnover during the entire period, in all national banks, of about $400 billions. This means that the loss to depositors has been about $1.37 out of every $10,000 of deposits—a rate of a little over a hundredth of one per cent.

No other business in the world has ever been able to show a risk record like this. It would seem obvious that if all deposit banks were brought into the Reserve System the cost of insurance on such an actuarial basis would be inconsiderable and could easily be borne without any burden on the government. The Reserve Banks have already paid in to the Federal Treasury since 1917 as franchise taxes an amount more than two and a half times the total loss to national bank depositors since the beginning of the national banking system; and the surplus of the Reserve Banks today amounts to five times as much as this loss.

In fact the risk of deposit insurance is so small and so accurately calculable that an eminent banker has made to this paper the surprising suggestion that insurance of bank deposits could easily be undertaken by private insurance companies. It offers to them an unexploited opportunity and would have certain technical advantages over a system set up by the banks themselves or the government because it would permit specific refinement and closer control of the risk.

In any case it is clear that the collapse of public confidence in our banking system, disclosed in the hoarding epidemic, demands drastic action. The remedies being applied are expensive and temporary palliatives. We have an opportunity to meet the issue in a permanent, inexpensive way by intelligent application of the insurance principle. It will not solve all our banking problems, but it will remove one of them most painful to the man in the street and most paralyzing to business.

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